



WASHINGTON STATE LEGISLATURE

Joint Committee on Pension Policy

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September 18, 2002

1 - 4 PM

Senate Hearing Room 4
Olympia

AGENDA

- 1 PM **(1) Personnel Committee Report** – Senator Karen Fraser
- 1:15 PM **(2) Initiative 790**
 – Larry Risch, Deputy State Actuary
 – Norman Losk, Gabriel, Roeder, Smith & Company
 – Marty Brown, Director, Office of Financial Management
- 2:15 PM **(3) Pension Funding Council Report** – John Charles, Chair,
 Pension Funding Council
- 3 PM **(4) Early Retirement Analysis** – David Pringle
- 3:45 PM **(5) Definition of “Veteran” Study (Ch 292, L 02)** – David
 Pringle
- 4 PM **(6) Adjourn**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Joint Committee on Pension Policy meetings should call (360) 753-9695. TDD 1-800-635-9993

Senators: Don Carlson, Chair; Karen Fraser; Harold Hochstatter; Ken Jacobsen; Debbie Regala; Linda Evans Parlette; Harriet Spanel; Shirley Winsley
Representatives: Steve Conway, Vice Chair; Gary Alexander; Glenn Anderson; Mike Cooper; Jerome Delvin; Bill Fromhold; Cheryl Pflug; Geoff Simpson



WASHINGTON STATE LEGISLATURE
Office of the State Actuary

August 8, 2002

Mr. Marty Brown, Director
Office of Financial Management
PO Box 43113
Olympia, WA 98504

Dear Mr. Brown:

As requested, we have prepared a fiscal note on the impact of Initiative 790 on contribution rates and liabilities of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2. It was prepared with the aid of consulting actuary Norman Losk, FSA. It is enclosed with supporting legal analysis and a letter from Norman Losk summarizing the results of his studies.

This should provide all the information needed for you to prepare a fiscal impact statement for the initiative.

Sincerely,

Larry Risch, MAAA
Deputy Actuary

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FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	7/30/02	Initiative 790

SUMMARY:

This initiative impacts the Law Enforcement Officer's and Fire Fighter's Retirement System Plan 2 (LEOFF 2) by creating a board of trustees to govern the plan. The board would consist of six active members of LEOFF 2, three employer representatives, and two legislators. The board shall adopt actuarial tables, assumptions and cost methodologies, and shall provide for the design and implementation of increased benefits for members and beneficiaries of the plan subject to contribution rate limits within the act. These increased benefits may be reduced under certain circumstances.

The initiative provides that current benefits represent the minimum benefits of the plan. An additional minimum benefit is added. All investment earnings in excess of the actuarially assumed rate of return shall be used exclusively for additional benefits. The currently assumed rate is 8%.

Effective Date: July 1, 2003.

BACKGROUND DISCUSSION:

Prior to 1976 the LEOFF retirement system was under the oversight of the Public Employees Retirement System (PERS)/LEOFF board of trustees that invested the retirement funds, hired the executive director, contracted for actuarial services, and proposed legislation to improve benefits for members and retirees. Funding decisions were included in the state operating budget.

In 1976, the legislature created the Department of Retirement Systems (DRS) to assume most of the oversight duties of the LEOFF board of trustees. The Office of the State Actuary (OSA) was also created in 1976 to provide all actuarial services for the retirement systems and the legislature.

In 1981, the State Investment Board (SIB) was created to manage the investment of all state retirement systems assets.

In 1982, the PERS/LEOFF board was abolished and all remaining duties became part of DRS.

In 1998, the Pension Funding Council was created to adopt economic assumptions, provide for actuarial audits and adopt pension contribution rates.

MEMBERS IMPACTED:

How the 13,133 active members, 248 terminated vested members and 143 retired members of this system would be affected would depend on how the gains are distributed (this is not provided by the bill). It will also depend on the amount of assets in the plan when the gain occurs. The assets should continue to grow significantly even without additional benefits added to the plan.

As described below we estimate the average yearly distribution of 4% of the assets. This would result in an average distribution of \$7,033 based on December 31, 2000 assets.

FISCAL IMPACT:

Actuarial Determinations:

The current contribution rate of LEOFF 2 totals 8.78% which is split 50% employee; 30% employer and 20% state. This contribution rate is lower than the expected long term cost of these benefits, as measured by the entry age cost method, due to the high level of recent investment return. The long term expected cost of the current benefits totals 16.72%.

We have estimated the impact of this initiative on the actuarial liabilities, the aggregate contribution rate, and the expected long term contribution rate:

<i>(Dollars in Millions)</i>	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$3,387	\$6,771	\$10,157
The Value of the Total Commitment to all Current Members			
Unfunded Liability (PBO)	\$(961)	\$2,295	\$1,334
The Value of the Total Commitment to all Current Members Attributable to Past Service			
Aggregate Contribution Rate			
Employee	4.39%	21.38%	25.77%
Employer	2.64%	12.83%	15.47%
State	1.75%	8.55%	10.30%
Total	8.78%	42.76%	51.54%
Long Term Contribution Rate			
Employee	8.36%		22.99%
Employer	5.02%		13.79%
State	3.34%		9.20%
Total	16.72%		45.98%

Fiscal Budget Determinations:

Adoption of the higher contribution rate determined in this Fiscal Note results in the increase in funding expenditures shown below, effective July 1, 2003. A different adoption date would not affect the rate, but would affect the dollar cost below.

Increase in Contribution Rates:

Employee	21.38%
Employer	12.83%
State	8.55%

Costs (in Millions):

2003-2005

State:

General Fund	177.5
Non-General Fund	0.0

Total State **\$ 177.5**

Local Government **\$ 266.3**

2005-2007

State:

General Fund	\$ 202.9
Non-General Fund	0.0

Total State **\$ 202.9**

Local Government **\$ 304.5**

2003-2028

State:

General Fund	\$4,822.1
Non-General Fund	0.0

Total State **\$4,822.1**

Local Government **\$7,236.0**

Actuary Comments:

- We have used the entry-age normal cost as an estimate of the long-term cost of the plan if there are no future gains and losses, plan changes or assumption changes.
- The projected fiscal impact was determined using the immediate change in the aggregate contribution rate shown above and projected salaries.
- The costs may be more or less depending on the experience of the plan.
- The costs were developed using the current cost method and assumptions.
- The effect of any future board action with respect to the investment assumption or other methods and assumptions, is not anticipated in determining the costs.

- In addition to the allocation of investment return in excess of the actuarially assumed rate of return to provide additional benefits, the Initiative gives the LEOFF Board authority to adopt “increased benefits”. Those “increased benefits” would not require legislation to become effective. The legislature could repeal such benefits by acting within 90 days of the commencement of the next legislative session. The additional contributions for such benefits cannot exceed a total of 20% of pay (10% from the employees, 6% from the employers and 4% from the state).

If this Initiative is enacted and if the LEOFF Board adopts “increased benefits” with the maximum possible contribution, to be effective throughout the 2003-2005 biennium, the additional fiscal impact would be as follows:

	<u>Contribution Rate</u>	<u>Estimated Dollar Contributions (in millions)</u>
Employee	10%	207
Employer	6%	124
State	4%	83

This is the maximum possible impact of “increased benefits” on the costs of LEOFF 2 under the interpretation of the Initiative which is attached to this fiscal note.

Larry Risch, A.S.A.
Deputy Actuary

Norman S. Losk, F.S.A.
Senior Consultant
Gabriel, Roeder, Smith & Company
Consultants & Actuaries

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the Dec. 31, 2000 actuarial valuation report of the Law Enforcement Officers' and Fighters' Retirement System, as adjusted in the prior session for the new demographic assumptions developed from the 1995-2000 actuarial experience.
2. As with the costs developed in the actuarial valuation, the emerging costs of the pension system will vary from those presented in the valuation report, or this fiscal note, to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill that were not used or disclosed in the actuarial valuation report include the following:

Currently, returns that are higher than assumed result in gains that lower contribution rates. Returns that are lower than assumed result in losses that increase the contribution rates. Under Initiative 790, only losses would increase the rates. Gains would be used to provide additional benefits to the member.

Currently, the assumed rate used to determine pension costs is 8 percent as set by the Legislature. This rate is the average long-term rate. There is no separate assumption as to the year-to-year fluctuation in the returns, or what the return will be for the short-term as opposed to the long term. Consulting actuary Norman S. Losk, F.S.A. of Gabriel, Roeder, Smith & Company summarizes the results of his study:

"In discussing the future with investment professionals, a consensus view seems to be that the future returns from equities are expected to be lower in the next decade than in recent decades. Thus, while it would be reasonable to use an effective return rate assumption of 3 percent - 3.5 percent based on our historical reviews, I recommend an effective rate assumption of 4 percent. This assumption reflects the expectations that:

- Future returns will not be as high as in the recent past, and
- In years in which losses occur, those losses will not be as deep as in recent years"

We assumed there would not be a change in the current investment policy.

However, since earning 8 percent and paying out 4 percent each year amounts to net earnings of 4 percent, then 4 percent is used in determining the cost to fund the current benefits. Using 8 percent to value the current benefits, and then trying to separately calculate the cost of an average distribution of 4 percent of assets would yield the same result, but with far more complications.

4. The analysis of this bill does not consider any other proposed changes to the pension system. The combined impact of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only for this initiative and the supplemental rate to be charged if passed by the voters.
6. The funding method used for Plan 1 utilizes the Plan 2 employer/state rate as the Normal Cost and amortizes the remaining liability Unfunded Actuarial Accrued Liability (UAAL) by the year 2024. Benefit increases to Plan 2 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2 utilizes the Aggregate Funding Method. The cost of Plan 2 is spread over the average working lifetime of the current active Plan 2 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts that are expected to be paid in, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Sectional Analysis of I-790

Sec. 1. Overview. *(Effective July 1, 2003)*

Statement of intent.

Comments: None.

Sec. 2. Intent. *(Effective July 1, 2003)*

Statement of intent.

Comments: None.

Sec. 3. Definitions. *(Effective July 1, 2003)*

An additional definitions section is added to Chapter 41.26, applicable to the sections in the act.

Summary of some of the most pertinent subsections include:

- (1) “Member or beneficiary” means current, future, retired, separated and vested, and named beneficiaries of the plan.
- (2) “Plan” means LEOFF 2.
- (8) “Minimum benefits” means those benefit provided for in chapter 41.26 RCW as of July 1, 2003.
- (11) “Increased benefit” means a benefit in addition to the minimum benefit.
- (13) “Benefits” means age or service required for retirement, disability benefits, DROP plan, average final compensation period, COLA’s, health care, but **not** classification of employment eligible to participate in the plan.
- (14) “Actuarially sound” means the plan is sufficiently funded to meet its projected liabilities and to defray reasonable operating expenses based upon “commonly accepted, sound actuarial principles.”

Comments: Particularly important to the analysis of actuarial impact are the “minimum benefit” and “increased benefit” definitions. The minimum benefits are, as is also stated in section 6(b)(ii), contractually-protected rights of the members. The definition explains that those benefits that are part of chapter 41.26 RCW as of July 1, 2003 are minimum benefits, and thus are contractual rights. The initiative makes one addition to the minimum benefits: in section 6(5), described below.

“Benefits” defined in subsection (13) generally describes what may be among the features of the minimum benefits or the increased benefits, and specifically excludes LEOFF 2 membership eligibility.

Sec. 4. Board created. (*Effective July 1, 2003*)

An 11 member board consisting of 6 police and fire fighter member representatives (some of them retirees after 2006), 3 employer representatives, and 2 legislators. The governor shall appoint the employer representatives and the police and fire member representatives from a list provided by the employee organizations. The governor shall also appoint the legislative board members based on the recommendation of the speaker of the House of Representatives and the majority leader of the Senate.

Comments: None.

Sec. 5. Powers of the Board. (*Effective July 1, 2003*)

Summary of subsections:

The board has the following powers and duties:

- (1)(a) Adopting actuarial tables, assumptions, and methods in consultation with an enrolled actuary retained by the board. The enrolled actuary retained by the board shall utilize the aggregate actuarial cost method, or other recognized actuarial method based on a level percentage of pay. The enrolled actuary retained by the board shall provide a copy of all calculations to the State Actuary for concurrence, disagreements being resolved by a third actuary.
- (b)(i) Provide for increased benefits (a defined term) subject to the contribution limitations in section 6 of the act. Increased benefits may be approved by the board after costs are determined by the board’s actuary and contribution rates are adjusted as may be required to maintain the soundness of the plan. Approved increased benefits shall be presented to the legislature on January 1st of each year, and shall become effective unless a bill is enacted in the ensuing session repealing the board action.
- (b)(ii) Make recommendations to add benefits to the legislature without regard to the cost limitations of section 6(3). Recommendations are presented to the Legislature on January 1st of each year, take precedence over all measures before the Legislature except appropriations bills, and shall be enacted or rejected without change or amendment. Benefits adopted in this manner shall be contractual rights of members, just as are the minimum benefits in the plan.

- (c)-(g) Retain professional and technical advisors as needed, consult with DRS, and provide an annual report to the governor and legislature on plan status. Establish administrative rules and operating policies and engage staff and acquire office space either independently or with DRS.
- (h) Annually publish a schedule of increased benefits and summary of the minimum benefits that shall constitute the official plan document.
- (i) Be the “fiduciary of the plan” and discharge the board’s duties solely in the interest of members and beneficiaries.
- (2)(a)-(d) To conduct meetings open to the public with timely notice and lawfully closed executive sessions.
- (3) Quorum for the board is six members, and all board actions require six votes.
- (4) Decisions of the board are final and conclusive. Decisions are subject to judicial review as provided by law.
- (5) Create an expense fund and budget for the purpose of defraying the expenses of the board with funding drawn from the investment income of the trust. The board shall retain the services of an independent CPA to annually audit the expenses of the fund.

Comments: Currently assumptions and rates are adopted by the Pension Funding Council in Chapter 41.45 RCW. The relevant provisions in, for example, Chapters 41.45 and 41.50 RCW are not amended in the initiative.

Two separate mechanisms for adding benefits are created in subsection 1(b) of section 5. The first, in 1(b)(i) creates “increased benefits” by board action subject to legislative disapproval. The second adds to the minimum benefit, without the cost limitations that exist for the increased benefits in section 6(3), by the board submitting recommended changes to the legislature which must be approved or rejected by the legislature without change.

Future legislation or board action could change costs and some or perhaps any of the provisions in the initiative or other related statutes. This analysis does not assume that any independent changes or conditions either occur or do not occur.

Sec. 6. Contributions. (*Effective July 1, 2003*)

Summary of subsections.

(1) The board shall establish contributions as set forth in this section, the total contributions will be divided between employees (50%), employers (30%), and the state (20%).

(2) The state and employers shall maintain the minimum benefits, which may not be reduced below the levels in effect on July 1, 2003, on a sound actuarial basis in accordance with the actuarial standards adopted by the board.

(3) Increased benefits created in section 5 of the act are granted on a basis not to exceed the contributions provided in this section. In addition to the contributions necessary to maintain the minimum benefits, the employee contribution for increased benefits shall not exceed 50% of the cost. In no event shall the employee cost exceed 10%, the employer cost 6%, or the state cost 4% of covered payroll without the consent of each.

If the cost of increased benefits exceed the contributions provided for in this section, the board shall give the members the option of paying the increased costs to maintain the increased benefits, or reduce the benefits to meet the available funding. The reduction of increased benefits by this section shall not be deemed a violation of the contractual rights of members.

(4) The board shall manage in a manner that maintains reasonable contributions and administrative costs, with their priority being additional benefits for members and beneficiaries.

(5) “All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries.”

Comments: The first three subsections of section 6 concern the board’s establishment and distribution of contributions, the funding of the minimum benefits, and the funding of the increased benefits, respectively.

The first subsection states that the board shall establish the contribution rates as detailed in the section, and for the minimum benefits the cost shall be distributed to employees, employers, and the state on a 50/30/20 ratio, as LEOFF 2 is now.

The second subsection concerns the minimum benefits as a contractual obligation, and that they shall be funded on a sound actuarial basis.

The third subsection concerns the increased benefits. It states that the increased benefits “are granted on a basis not to exceed the contribution provided for in this section.” The following sentence appears to qualify that statement, stating: “In addition to the contributions necessary to maintain the minimum benefits, for any increased benefits

provided for by the board...” The subsection then goes on to describe limitations on contributions and their distribution between the members, employers, and the state. It states that “in no instance shall the employee cost exceed ten percent of covered payroll,” and has proportionate caps for the employer and state. Each cap may be lifted by the consent of that entity.

These caps appear to apply, as does the subsection overall, to the increased benefits and not the minimum benefits. The first two sentences of the subsection, page 7 lines 10-13, indicate that this involves funding the increased benefits, and are “in addition to the contributions necessary to maintain the minimum benefits...” Also, on page 7 lines 26-31 the consequences of the cost of the increased benefits exceeding the limitation of the “section” are detailed - either the increased benefits are reduced, or the affected members may pay “the increased costs.” No reduction of “increased benefits” by the board may result in benefits being lower than the level of the minimum benefits.

Subsection 5 of the section is an increase to the minimum benefits of LEOFF 2. As is commented upon in several parts of this analysis, this section is codified in Ch. 41.26 RCW and comes into effect on July 1, 2003, meeting the criteria of the minimum benefit as defined in section 3(8). “All earnings of the trust in excess of the actuarially assumed rate of investment return”, currently fixed in statute until May of 2004 at 8% per year, “shall be used exclusively for additional benefits for members and beneficiaries.” While the method of distribution to members and beneficiaries is not specified, the method of determining the amount of this “investment return benefit” provision each year is clear. The dedication or identification of these amounts to additional benefits for members and beneficiaries in a sense removes them from the assets available to fund the other minimum benefits of LEOFF 2. Because the identified assets will be unavailable to fund the other minimum benefits, additional contributions are required to begin funding for the future cost of the investment return benefit.

Sec. 7. Nonapplicability of the Joint Committee on Pension Policy and the Pension Funding Council. (*Effective July 1, 2003*)

The short section states that neither the JCPP nor the PFC have “applicability or authority” over matters relating to LEOFF 2.

Comments: No instances of this language appear in Washington legislative documents during the past 17 years. It is unclear how specific duties relating to LEOFF 2 that remain in statute with the JCPP (appointment and removal of the State Actuary), DRS, and particularly the PFC (rates and assumption-setting, etc.) are affected by this nonapplicability language.

Sec. 8. Asset management. *(Effective July 1, 2003)*

The State Investment Board shall manage the assets of the board as provided by state law.

Comments: None.

Sec. 9. Severability. *(Effective July 1, 2003)*

Standard severability language. States that if any section is held invalid, the remainder is not affected.

Comments: None.

Sec. 10. Captions not law. *(Effective July 1, 2003)*

Comments: None.

Sec. 11. Implementing legislation. *(Effective 30 days after election)*

DRS and OSA shall prepare and submit “proposed legislation for implementing this act” to the fiscal committees of the legislature by January 15, 2003.

Comments: While instructions to an administrative agency to promulgate rules implementing a legislative act are common, and committees or commissions are sometimes charged with development of methods of implementation of broad policy objectives (see, e.g. Chapter 331, laws of 2002), the scope or effect of “implementing legislation” contemplated here is unclear.

As mentioned earlier, future legislation or board action could change some or perhaps any of the provisions in the initiative or other pension-related statutes. This analysis does not assume that any independent changes or conditions either occur or do not occur.

Sec. 12. Codification. *(Effective July 1, 2003)*

Sections 1-9 of this act, which includes the creation of the board, board powers and duties, and contributions (which includes the additional “gain-sharing” benefit), are to be codified in Chapter 41.26 RCW.

Comments: Among those sections and subsections codified in Chapter 41.26 RCW is section 6, subsection (5), the new benefit of “All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries” subsection.

Sec. 13. Effective date. (*Effective July 1, 2003*)

Except for section 11, directing DRS and OSA to prepare implementing legislation, the act takes effect July 1, 2003.

Comments: As section 6, subsection (5) is added to Chapter 41.26 RCW, and comes into effect on July 1, 2003, it satisfies the criteria of “minimum benefits” described in section 3(8).



GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

3017 Douglas Boulevard • Suite 300 • Roseville, CA 95661 • Phone (916) 774-7580 • Fax (916) 774-7581

July 18, 2002

Mr. Larry Risch
Deputy State Actuary
2420 Bristol Court S.W.
Olympia, WA 98504

Re: Initiative 790

Dear Mr. Risch:

At your request, we have reviewed the provisions of Initiative 790 for the purpose of providing advice as to quantifying the impact of the provisions of this initiative which affect the benefits of LEOFF Plan 2. While, under the initiative, the new Board would be empowered to suggest “increased benefits” under the system, this analysis is limited to the effect of Section 6(5).

This Section reads as follows:

All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries.

We feel that, in the absence of specific language to the contrary, this means that:

- ❑ Any amounts of investment earnings in any year which exceed 8% (the current assumed rate of investment return) are segregated from funds to be used to fund the current benefits of LEOFF Plan 2 and are used to provide increased benefits to members and beneficiaries of the System.
- ❑ The method of distribution of such funds is not specified. But, it is clear that such funds are to be used to provide benefits that are in addition to those currently provided under LEOFF Plan 2.

Investment Return Assumption – General

In funding a retirement system, a number of assumptions are employed. Each of these assumptions is intended to reflect the long term expected future experience of the system. Thus, while actual experience will vary year-by-year, over the long term it is hoped that actual experience will average close to that assumed.

The investment return assumption operates in that way. As we know, investment return rates actually earned by the fund vary widely each year. The hope is that, over time, the rate of return in the fund would average at least 8%. However, if Section 6(5) is in effect, the maximum effective rate which can be earned by the fund in any year is 8%. When the earnings exceed 8%,

the excess is effectively removed from the funding process. Thus, the long-term average effective earnings rate is less than 8%.

Gross Investment Return Rate vs. Effective Investment Return Rate

For example, in the 25-year life of LEOFF 2, if the assets of the fund had always been allocated among assets classes as they are today, the fund return would have exceeded 8% in 16 years. The average return over that period would have been 13.02%. However, if the Section 6(5) had been in place during this period, the effective rate, after allocation of the amount in excess for distribution, would have been 5.64%.

Thus, in order to quantify the impact of Section 6(5), I suggest that we find an assumed effective rate of return. Performing an actuarial valuation at that effective rate will make reasonable provision for the additional outflows from the plan represented by the allocations of earnings in excess of 8%.

It should be noted that this process does not result in a change of the investment return assumption. The gross rate of return used in the valuation remains 8%, as required by statute. Using the effective rate of return is simply a method of reflecting the additional outflows from LEOFF 2 as a result of this provision.

Estimating the Effective Investment Return Rate

We have looked at the problem of estimating the effective investment return rate in several ways:

- ❑ We reviewed historical rates of investment return over the lifetime of LEOFF 2 (1977 – 2002), based on the current asset allocation policy of the Washington State Investment Board. As set out above, the gross return would have averaged 13.02%. However, had Section 6(5) been in place during this time, the effective rate of return would have been 5.64%, a reduction of 57% in effective return. A reduction of 57% of the gross investment return assumption of 8% would yield an effective rate of return of 3.47%.
- ❑ An additional analysis, based on projections from historical returns, resulted in an effective rate of 2.9%.

In discussing the future with investment professionals, a consensus view seems to be that the future returns from equities are expected to be lower in the next decade than in recent decades. Thus, while it would be reasonable to use an effective return rate assumption of 3% - 3.5% based on our historical reviews, I recommend an effective rate assumption of 4.00%. This assumption reflects the expectations that:

- ❑ Future returns will not be as high as in the recent past, and
- ❑ In years in which losses occur, those losses will not be as deep as in recent years.

Summary

In summary, I recommend that the fiscal impact of Section 6(5) of Initiative 790 be determined by comparing valuation results based on a gross investment return assumption of 8% to results based on an effective return assumption of 4%. I recommend that these valuations:

- ❑ Be performed as of December 31, 2000, using member data and assets as of that date, and
- ❑ Be based on the new set of demographic assumptions developed in the 1995-20000 Experience Study.

-
- Be based on all economic assumptions, other than the investment return assumption, utilized and set out in the actuarial valuation report of LEOFF 2 as of December 31, 2000, adjusted for the new demographic assumptions adopted in the prior legislative session.

Please feel free to call us if you need any additional information.

Sincerely,

Norman S. Losk, F.S.A.
Senior Consultant

NSL:cml

Benefit Cost Estimates Initiative 790



OSA

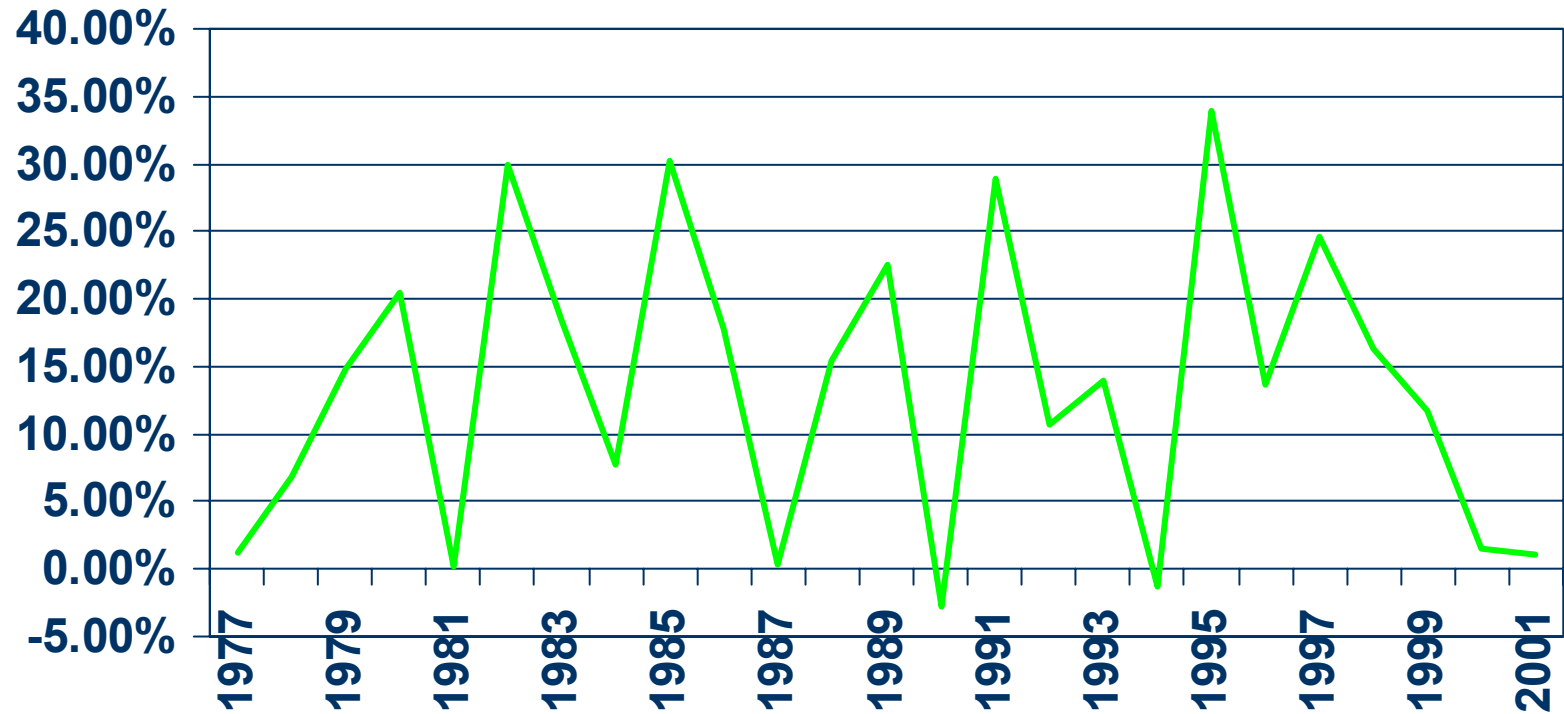


What is Initiative 790?

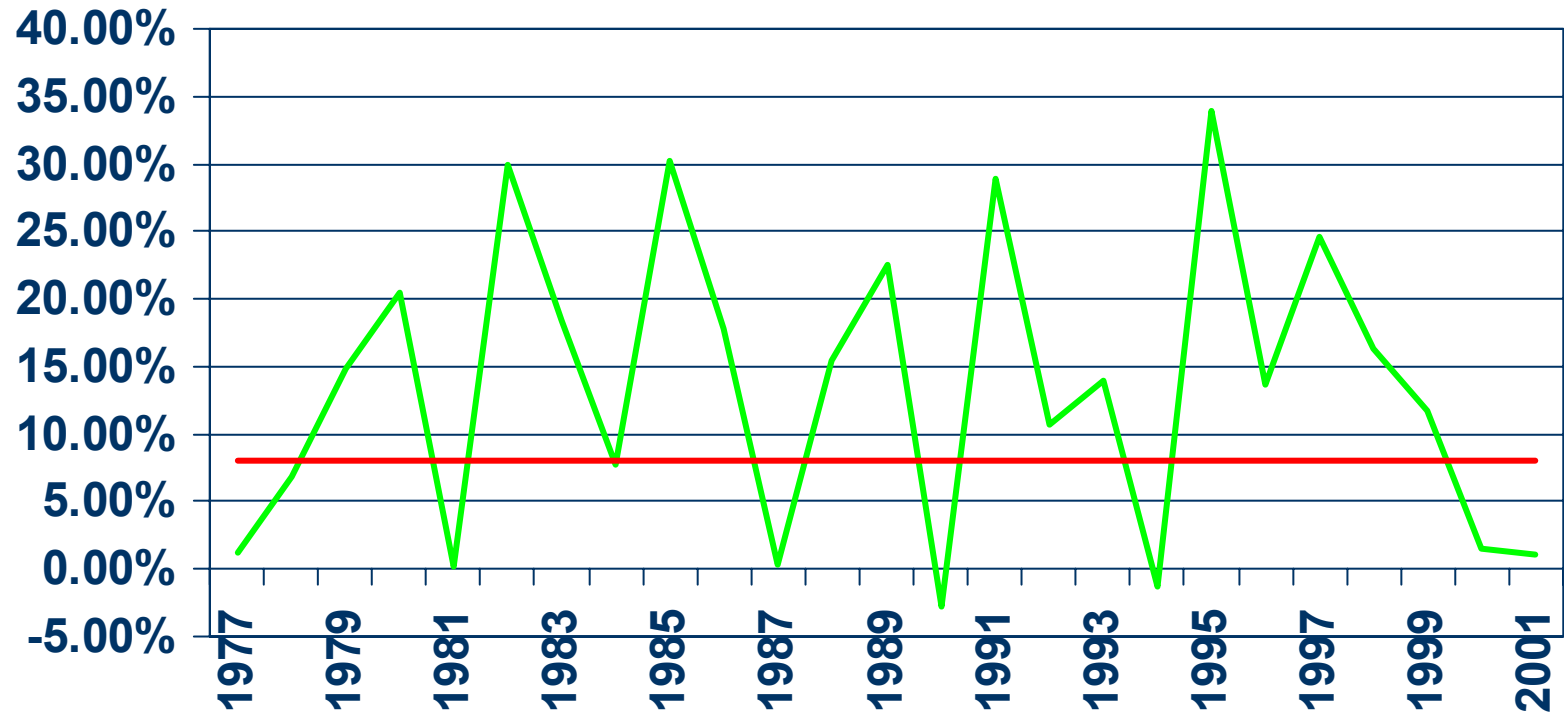
- Changes LEOFF Governance
- Provides for “minimum benefits”
- Provides certain contribution limits
- Section 6(5) - “All earnings of the trust in excess of the actuarial rate of return shall be used exclusively for additional benefits for members and beneficiaries.”



Estimated LEOFF Returns – Current Investment Allocation



Estimated LEOFF Returns – Current Investment Allocation – Limit to 8%



Effect of Section 6(5)

(\$ in Millions)

- If excess returns allocated annually
 - Contribution rate - 43% of pay
 - Nonmember Contributions first biennium - \$444
- If excess returns allocated every 6th year
 - Contribution rate - 29% of pay
 - Nonmember Contributions first biennium - \$341





POTENTIAL FINANCIAL IMPACTS OF I-790

RELATING TO THE LAW ENFORCEMENT OFFICERS' AND FIREFIGHTERS' RETIREMENT SYSTEM PLAN 2

This paper has been prepared by the Office of Financial Management (OFM) in response to questions concerning the financial impact of Initiative 790, which has qualified to appear on the November 2002 ballot. This information is provided for analytical purposes only and is not intended as an expression of support for or opposition to the proposed measure.

Background

Retirement System

The Law Enforcement Officers' and Firefighters' Retirement System Plan 2 (LEOFF 2) was created by the Washington Legislature in 1977. It provides pension benefits to local firefighters and law enforcement officers statewide. It has more than 13,000 members, employed primarily by cities, counties, and fire districts.

Current Governance

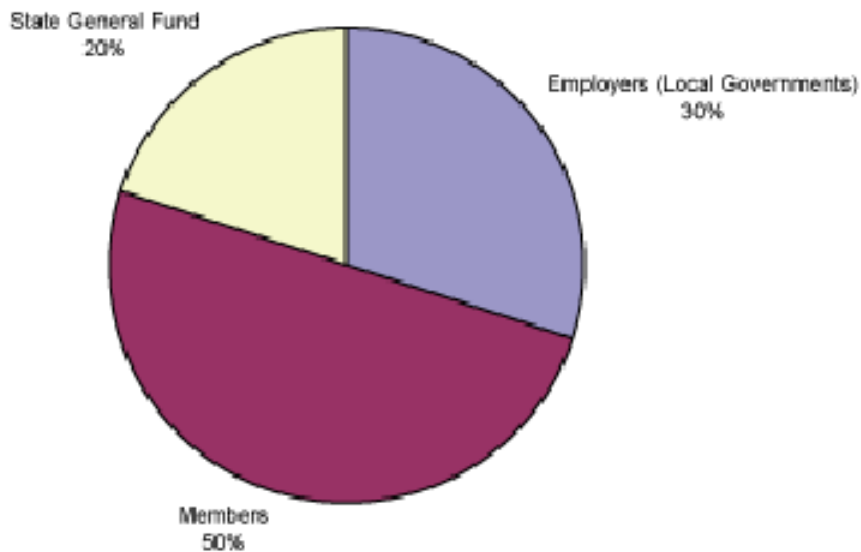
The LEOFF 2 benefits are established in statute by the Legislature. The Department of Retirement Systems, a state agency, administers the pension. Contribution rates to support the fund are calculated and recommended by the State Actuary, reviewed by the Pension Funding Council (a council of state officials) and adopted by the Legislature. The State Investment Board invests the pension funds.

Current Financial Situation

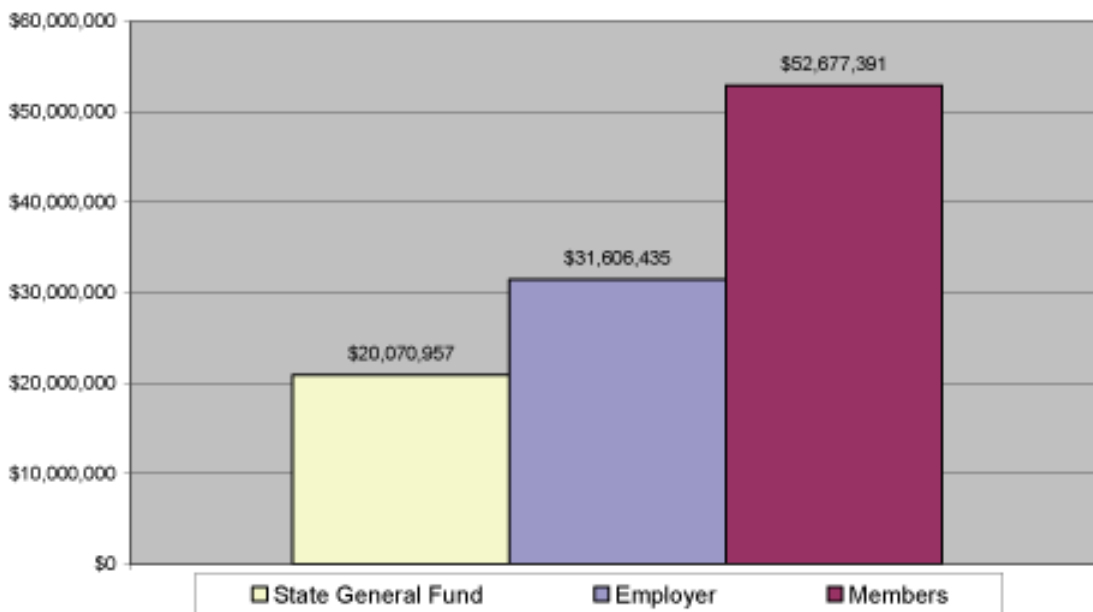
Employee, employer, and state contributions, along with investment earnings, pay for LEOFF 2 benefits. Half of the contributions (50 percent) come from employees. Local government employers (30 percent) and the state (20 percent) pay the other half of the cost.

Contributions by the state, local governments, and members change depending on investment earnings, changes in benefits, and other factors. At current rates, members contribute 4.39 percent of their pay; local government employers contribute an additional 2.64 percent of employee pay, and the state pays another 1.75 percent of each member's pay. Last year, contributions from all three sources totaled \$105,354,783. Additionally, employers pay administrative costs of 0.22 percent of pay.

Cost of LEOFF 2 Pension System

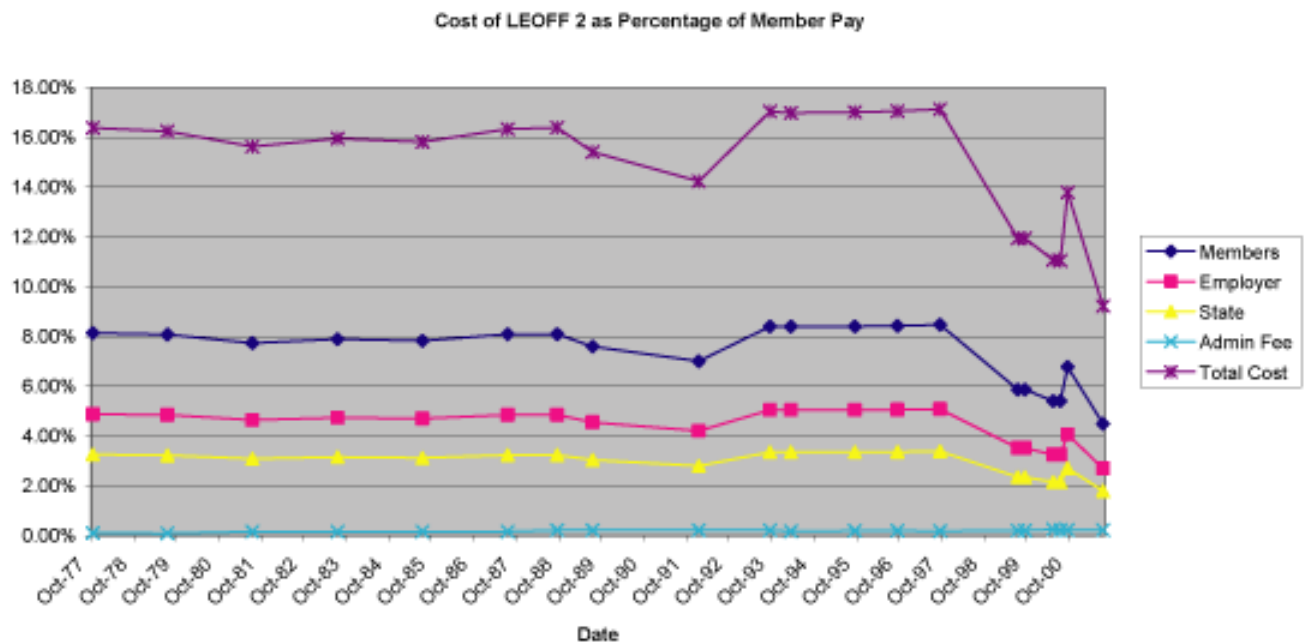


Yearly Contributions - Current Total \$105,354,783



Pension Benefits -- Current

Members are eligible to retire at age 53 if they have at least five years of service. They also have the option of retiring at age 50 if they have at least 20 years of service, but their benefit is reduced by 3 percent for each year that their age is under 53 .



The pension benefit is 2 percent of the final average compensation for each year of service, with no maximum. For example, a member retiring with 20 years of service would have a pension of 40 percent of pay, and one retiring after 30 years of service would receive a pension of 60 percent of pay.

Pension benefits include a cost of living provision, increasing each year by the amount of inflation (measured by the Seattle Consumer Price Index), up to a maximum of 3 percent per year.

Initiative 790 - General Overview

Initiative 790 proposes significant changes in three areas of the LEOFF 2 pension system: governance; contributions; and benefits. It seeks to transfer program administration authority to a rule-making board and institutes three levels of benefits for members, which may increase benefits and affect contribution limits. The estimated costs of the program are also discussed.

Governance

Initiative 790 transfers authority over the LEOFF 2 pension system to an 11-member board appointed by the governor. A majority of the board members represent those who will receive benefits from the plan. The board is composed of six members of LEOFF 2, three employer representatives, and two members of the Legislature.

Among other powers, the board can act to increase benefits and contribution rates in two ways:

First, for benefit increases that cost less than an additional 20 percent of members' pay (10 percent paid by employees, 6 percent by local government employers, and 4 percent by the state), the board could adopt the increases to take effect unless the Legislature, in its next session, passed a bill to repeal the increase.

Second, if the board proposes a change that has a greater cost than an additional 20 percent of members' pay, the changes first must be submitted to the Legislature for approval or disapproval. The Legislature must vote to approve or disapprove the changes. The Legislature has no authority to amend those changes made by the board.

Initiative 790 - Benefit Categories Overview

The initiative proposes three possible categories of benefits.

- **Minimum benefits** - These benefits include those currently in place along with a new additional benefit, effective July 1, 2003. The new benefit provides that all investment earnings of the pension fund greater than the expected, statutory rate of return are to be used for benefit increases. The exact type of additional benefit is not specified. The initiative does not allow for a reduction in minimum benefits.
- **Increased benefits Type 1 (less than contribution limits)** - The board may adopt increased benefits up to a newly set statutory contribution limit. The benefits automatically take effect unless the Legislature passes a bill in the next session following the board's action to repeal the board's action. These benefits would require an upward adjustment in the contribution rates paid by members, local government employers, and the state in order to pay for the increase and to keep the fund financially sound. The cost of this type of benefit increase could be up to an additional 20 percent of members' pay (half paid by the employees, the other half by the state and employers). If the cost of this category of benefit grows over time to be more than these limits, the members can choose to pay the cost or reduce the benefit.
- **Increased benefits Type 2, (greater than contribution limits)** - The board may adopt increased benefits that exceed statutory contribution limits. These are benefits that would cost more than the minimum benefits cost, plus an additional 20 percent of members' pay. Proposed benefits that exceed statutory contribution limits must be sent to the Legislature for approval or disapproval. Once approved by the Legislature, these benefits could not be reduced.

Initiative 790-Estimated Costs

Administrative Costs

The new LEOFF 2 pension board required by Initiative 790 is estimated to cost between \$1.1 million and \$1.3 million in its first fiscal year. In following years, the cost would depend, in part, on whether the board chooses to rely on existing state agency staff for some support, or whether it decided to create a more independent structure. With the use of existing agency staff, the second year cost would be about \$1.5 million and slightly more in following years. If the board decided to create a more independent organization, the second year administrative cost would be about \$3.5 million.

Administrative Costs		
	Option 1	Option 2
FY 2003 (current year)	\$1.1 million	\$1.3 million
FY 2004	\$1.5 million	\$3.5 million
FY 2005	\$1.2 million	\$2.8 million
FY 2006	\$1.3 million	\$1.5 million
FY 2007	\$1.2 million	\$1.3 million

Actuarial Cost (cost of benefits)

An independent actuarial consulting firm (Gabriel, Roeder, Smith & Company) and the Washington Office of the State Actuary have provided the following cost estimates for the potential different benefit levels.

Cost of New Minimum Benefit

In terms of the minimum benefits category, section 6(5) of the Initiative says "All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries." The current statutory assumption for investment return is 8 percent per year over the long term. In some years, the return is expected to be less than 8 percent, and in other years it will be more, but overall, it will average out at 8 percent. The actuaries have pointed out that if all returns greater than 8 percent are used for additional benefits, the average of those returns that are left will be less than 8 percent over time.

One-Year Evaluation and Possible Redirection of Earnings

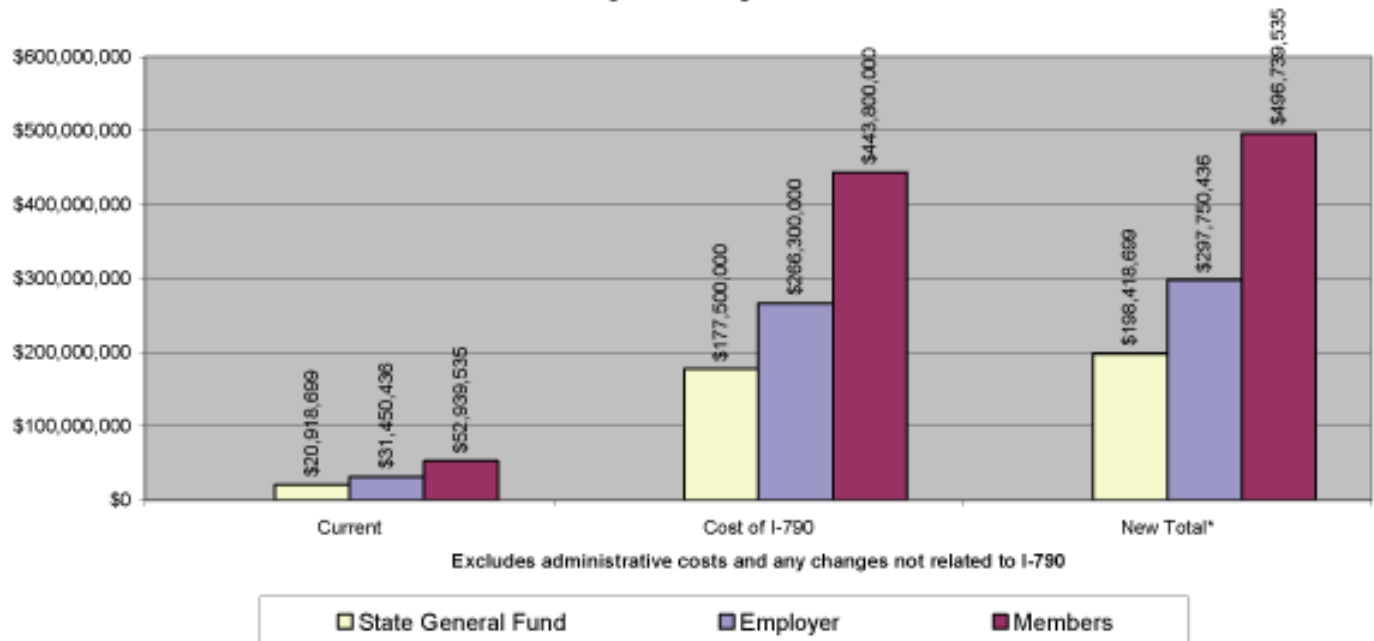
The actual returns on the pension fund vary from year to year, and even from day to day. The cost of section 6(5) of Initiative 790 depends on how often those returns of more than 8 percent are removed from the fund balance. The actuaries interpret the initiative to mean that each year's return would be measured and any amount greater than 8 percent would be earmarked for extra benefits. If a shorter interval than one year were used, the cost would be greater. If the interval were longer than one year, the cost would be less.

Using this one-year interval, the actuaries estimate that the impact on the long-term yield would reduce the return to 4 percent. To make up for the difference between 4 percent and 8 percent, contributions to the fund would have to increase. The contribution rate would increase from just under 9 percent to nearly 52 percent of members' pay (paid by members', local government employer, and state contributions.)

During the first two years, these rate increases would cost the State of Washington \$177.5 million. Local government costs would increase by \$266.3 million, and members would have to contribute an extra \$443.8 million to their pension fund.

Biennial LEOFF 2 Contributions - Redirect Earnings Each Year			
	Current	New Contribution	New Total*
Employer	\$31,450,436	\$266,300,000	\$297,750,436
Members	\$52,939,535	\$443,800,000	\$496,739,535
State General Fund	\$20,918,699	\$177,500,000	\$198,418,699
Total	\$105,308,670	\$887,600,000	\$992,908,670
* Omits any changes that might occur but that are not a result of the initiative			

Effect of Redirecting Extra Earnings Each Year - Biennial

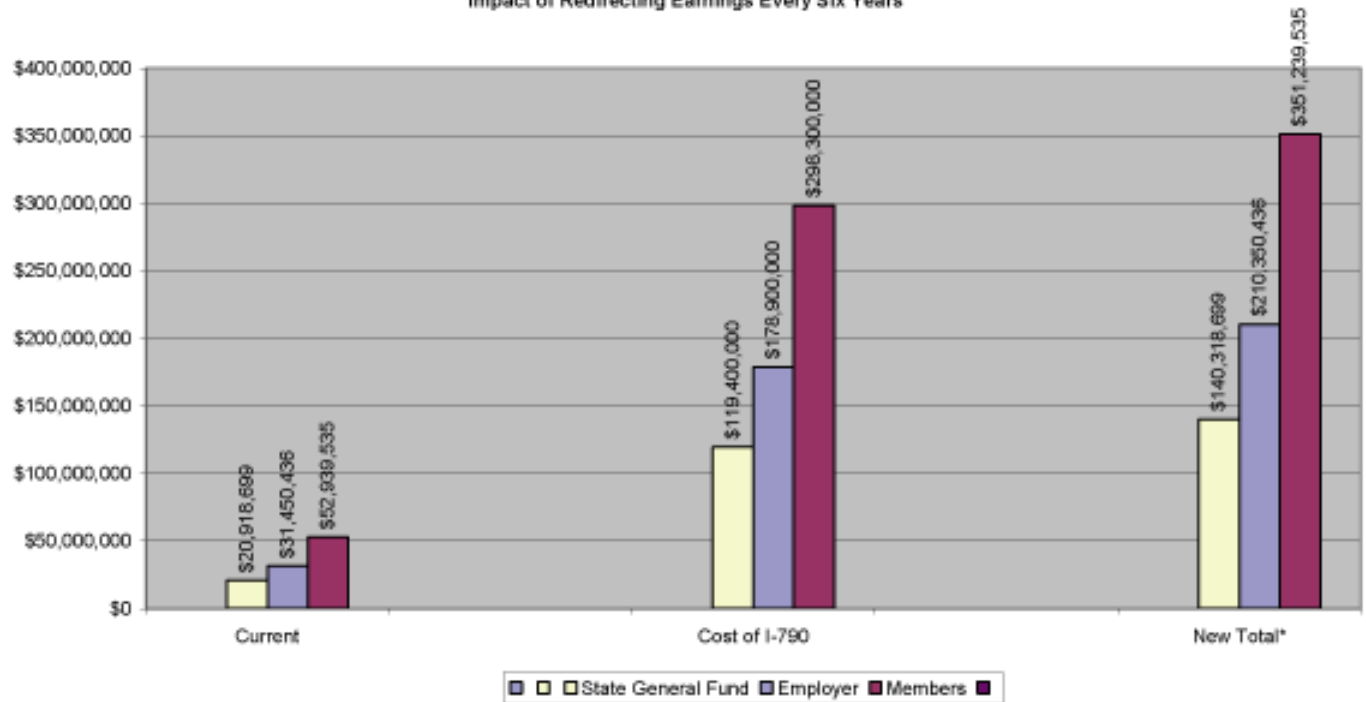


Six-Year Evaluation and Possible Redirection of Earnings

At the request of the Office of Financial Management, the Office of the State Actuary also estimated the cost of section 6(5) of the Initiative if the investment returns over the assumed rate of 8 percent were redirected to new benefits only every six years, rather than each year. A six-year cycle was selected as an example because it would correspond to the cycle on which other assumptions for the state pension systems are evaluated. The actuaries estimate that using the six-year cycle would reduce the effective average rate of return on the pension fund from 8 percent to 5 percent per year.

To make up for this percentage change, contributions to the fund would have to increase to keep the fund healthy and able to cover retirement benefit costs. The contribution rate would increase from about 9 percent to nearly 38 percent of pay (including member, employer, and state contributions.) During the first two years, these rate increases would cost the State of Washington \$119.4 million. Local government costs would increase by \$178.9 million, and members would have to contribute an extra \$298.3 million to their pension fund.

Impact of Redirecting Earnings Every Six Years



Earnings - 6 Year

Biennial LEOFF 2 Contributions			
	Current	Cost of I-790	New Total*
Employer	\$31,450,436	\$178,900,000	\$210,350,436
Members	\$52,939,535	\$298,300,000	\$351,239,535
State General Fund	\$20,918,699	\$119,400,000	\$140,318,699
Total	\$105,308,670	\$596,600,000	\$701,908,670

* Omits any changes that might occur but that are not a result of the initiative

Long Term Evaluation and Redirection of Extra Earnings The actuarially assumed rate of return is a long-term assumption. The question of how to use investment returns above a certain threshold might be resolved in favor of leaving them in the fund for the long term. If earnings of the fund are not redirected to additional benefits in the foreseeable future, the cost is minimized. Under current law, if the fund earns more than expected for a sustained period, the contribution rates decline. If any unexpectedly high returns were earmarked to increase benefits, a rate decline would not be possible.

Cost of increased Benefits - Type 1

The new board would have the option of increasing benefits by up to a cost of 20 percent of pay. If it were to fully use this authority, the biennial cost to the state would be \$83 million, \$124 million to local governments, and \$207 million for active members of the plan.

Cost of increased Benefits - Type 2

The board has the ability to design additional benefits, above the 20 percent cost of Type 1 benefits. Because this type of benefit would require additional action by the state Legislature, an analysis of the cost impact is beyond the scope of this paper.

Cost Summary

In the scenario in which costs are greatest, the board would adopt the more expensive form of administration, and would use its authority to increase benefits by up to 20 percent of pay. The earnings of the pension fund would be evaluated every year, and any earnings greater than 8 percent would be redirected to additional benefits. The cost of this scenario in the first full biennium would be \$1.3 billion dollars -- \$262 million for the state, \$392 million for local governments, and \$654 million for active pension plan members.

In the least expensive scenario, the board would adopt the less expensive form of administration and would not increase benefits. The question of how to use investment returns might be resolved in favor of leaving them in the fund for the long term. In this case, the only cost of initiative in the first full biennium would be administrative -- \$1.7 million.

In between these scenarios are any number of intermediate possibilities, depending on how the various provisions of the initiative are interpreted and administered.

To view the entire report from the actuaries [click here](#).

Better Information, Better Decisions, Better Government

INITIATIVE 790

I, Sam Reed, Secretary of State of the State of Washington and custodian of its seal, hereby certify that, according to the records on file in my office, the attached copy of Initiative Measure No. 790 to the People is a true and correct copy as it was received by this office.

1 AN ACT Relating to the law enforcement officers' and fire fighters'
2 retirement system, plan 2; adding new sections to chapter 41.26 RCW;
3 creating new sections; and providing an effective date.

4 BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** OVERVIEW. The law enforcement officers' and
6 fire fighters' retirement system plan 2 is currently subject to
7 policymaking by the legislature's joint committee on pension policy
8 with ratification by the members of the legislature and is administered
9 by the department of retirement systems.

10 Members of the plan have no direct input into the management of
11 their retirement program. Forty-six other states currently have member
12 representation in their pension management. This act is intended to
13 give management of the retirement program to the people whose lives are
14 directly affected by it and who provide loyal and valiant service to
15 ensure the health, safety, and welfare of the citizens of the state of
16 Washington.

17 NEW SECTION. **Sec. 2.** INTENT. It is the intent of this act to:

(1) Establish a board of trustees responsible for the adoption of actuarial standards to be applied to the plan;

(2) Provide for additional benefits for fire fighters and law enforcement officers subject to the cost limitations provided for in this act;

(3) Exercise fiduciary responsibility in the oversight of those pension management functions assigned to the board;

(4) Provide effective monitoring of the plan by providing an annual report to the legislature, to the members and beneficiaries of the plan, and to the public;

(5) Establish contribution rates for employees, employers, and the state of Washington that will guaranty viability of the plan, subject to the limitations provided for in this act;

(6) Provide for an annual budget and to pay costs from the trust, as part of the normal cost of the plan; and

(7) Enable the board of trustees to retain professional and technical advisors as necessary for the fulfillment of their statutory responsibilities.

NEW SECTION. **Sec. 3.** DEFINITIONS. The definitions in this section apply throughout this act unless the context clearly requires otherwise.

(1) "Member" or "beneficiary" means:

(a) Current and future law enforcement officers and fire fighters who are contributing to the plan;

(b) Retired employees or their named beneficiaries who receive benefits from the plan; and

(c) Separated vested members of the plan who are not currently receiving benefits.

(2) "Plan" means the law enforcement officers' and fire fighters' retirement system plan 2.

(3) "Actuary" means the actuary employed by the board of trustees.

(4) "State actuary" means the actuary employed by the department.

(5) "Board" means the board of trustees.

(6) "Board member" means a member of the board of trustees.

(7) "Department" means the department of retirement systems.

(8) "Minimum benefits" means those benefits provided for in chapter 41.26 RCW as of July 1, 2003.

(9) "Employer" means the same as under RCW 41.26.030(2)(b).

(10) "Enrolled actuary" means an actuary who is enrolled under the employee retirement income security act of 1974 (Subtitle C of Title III) and who is a member of the society of actuaries or the American academy of actuaries.

(11) "Increased benefit" means a benefit in addition to the minimum benefits.

(12) "Trust" means the assets of the plan.

(13) "Benefits" means the age or service or combination thereof required for retirement, the level of service and disability retirement benefits, survivorship benefits, payment options including a deferred retirement option plan, average final compensation, postretirement cost of living adjustments, including health care and the elements of compensation. Benefits shall not include the classifications of employment eligible to participate in the plan.

(14) "Actuarially sound" means the plan is sufficiently funded to meet its projected liabilities and to defray the reasonable expenses of its operation based upon commonly accepted, sound actuarial principles.

NEW SECTION. **Sec. 4.** BOARD OF TRUSTEES CREATED--SELECTION OF TRUSTEES--TERMS OF OFFICE--VACANCIES. (1) An eleven member board of trustees is hereby created.

(a) Three of the board members shall be active law enforcement officers who are participants in the plan. Beginning with the first vacancy on or after January 1, 2007, one board member shall be a retired law enforcement officer who is a member of the plan. The law enforcement officer board members shall be appointed by the governor from a list provided by a recognized statewide council whose membership consists exclusively of guilds, associations, and unions representing state and local government police officers, deputies, and sheriffs and excludes federal law enforcement officers.

(b) Three of the board members shall be active fire fighters who are participants in the plan. Beginning with the first vacancy on or after January 1, 2007, one board member shall be a retired fire fighter who is a member of the plan. The fire fighter board member shall be appointed by the governor from a list provided by a recognized statewide council, affiliated with an international association representing the interests of fire fighters.

(c) Three of the board members shall be representatives of employers and shall be appointed by the governor.

(d) One board member shall be a member of the house of representatives who is appointed by the governor based on the recommendation of the speaker of the house of representatives.

(e) One board member shall be a member of the senate who is appointed by the governor based on the recommendation of the majority leader of the senate.

(2) The initial law enforcement officer and fire fighter board members shall serve terms of six, four, and two years, respectively. Thereafter, law enforcement officer and fire fighter board members serve terms of six years. The remaining board members serve terms of four years. Board members may be reappointed to succeeding terms without limitation. Board members shall serve until their successors are appointed and seated.

(3) In the event of a vacancy on the board, the vacancy shall be filled in the same manner as prescribed for an initial appointment.

NEW SECTION. **Sec. 5.** POWERS OF THE BOARD OF TRUSTEES--MEETING PROCEDURES--QUORUM--JUDICIAL REVIEW--BUDGET OF THE BOARD OF TRUSTEES.

(1) The board of trustees have the following powers and duties and shall:

(a) Adopt actuarial tables, assumptions, and cost methodologies in consultation with an enrolled actuary retained by the board. The state actuary shall provide assistance when the board requests. The actuary retained by the board shall utilize the aggregate actuarial cost method, or other recognized actuarial cost method based on a level percentage of payroll, as that term is employed by the American academy of actuaries. In determining the reasonableness of actuarial valuations, assumptions, and cost methodologies, the actuary retained by the board shall provide a copy of all such calculations to the state actuary. If the two actuaries concur on the calculations, contributions shall be made as set forth in the report of the board's actuary. If the two actuaries cannot agree, they shall appoint a third, independent, enrolled actuary who shall review the calculations of the actuary retained by the board and the state actuary. Thereafter, contributions shall be based on the methodology most closely following that of the third actuary;

(b)(i) Provide for the design and implementation of increased benefits for members and beneficiaries of the plan, subject to the contribution limitations under section 6 of this act. An increased

benefit may not be approved by the board until an actuarial cost of the benefit has been determined by the actuary and contribution rates adjusted as may be required to maintain the plan on a sound actuarial basis. Increased benefits as approved by the board shall be presented to the legislature on January 1st of each year. The increased benefits as approved by the board shall become effective within ninety days unless a bill is enacted in the next ensuing session of the legislature, by majority vote of each house of the legislature, repealing the action of the board;

(ii) As an alternative to the procedure in (b)(i) of this subsection, recommend to the legislature changes in the benefits for members and beneficiaries, without regard to the cost limitations in section 6(3) of this act. Benefits adopted in this manner shall have the same contractual protections as the minimum benefits in the plan. The recommendations of the board shall be presented to the legislature on January 1st of each year. These measures shall take precedence over all other measures in the legislature, except appropriations bills, and shall be either enacted or rejected without change or amendment by the legislature before the end of such regular session;

(c) Retain professional and technical advisors necessary for the accomplishment of its duties. The cost of these services may be withdrawn from the trust;

(d) Consult with the department for the purpose of improving benefit administration and member services;

(e) Provide an annual report to the governor and the legislature setting forth the actuarial funding status of the plan and making recommendations for improvements in those aspects of retirement administration directed by the legislature or administered by the department;

(f) Establish uniform administrative rules and operating policies in the manner prescribed by law;

(g) Engage administrative staff and acquire office space independent of, or in conjunction with, the department. The department shall provide funding from its budget for these purposes;

(h) The board shall publish on an annual basis a schedule of increased benefits together with a summary of the minimum benefits as established by the legislature which shall constitute the official plan document; and

1 (i) Be the fiduciary of the plan and discharge the board's duties
2 solely in the interest of the members and beneficiaries of the plan.

3 (2) Meetings of the board of trustees shall be conducted as
4 follows:

5 (a) All board meetings are open to the public, preceded by timely
6 public notice;

7 (b) All actions of the board shall be taken in open public session,
8 except for those matters which may be considered in executive session
9 as provided by law;

10 (c) The board shall retain minutes of each meeting setting forth
11 the names of those board members present and absent, and their voting
12 record on any voted issue; and

13 (d) The board may establish, with the assistance of the appropriate
14 office of state government, an internet web site providing for
15 interactive communication with state government, members and
16 beneficiaries of the plan, and the public.

17 (3) A quorum of the board is six board members. All board actions
18 require six concurring votes.

19 (4) The decisions of the board shall be made in good faith and are
20 final, binding, and conclusive on all parties. The decisions of the
21 board shall be subject to judicial review as provided by law.

22 (5) A law enforcement officers' and fire fighters' retirement
23 system plan 2 expense fund is established for the purpose of defraying
24 the expenses of the board. The board shall cause an annual budget to
25 be prepared consistent with the requirements of chapter 43.88 RCW and
26 shall draw the funding for the budget from the investment income of the
27 trust. Board members shall be reimbursed for travel and education
28 expenses as provided in RCW 43.03.050 and 43.03.060. The board shall
29 make an annual report to the governor, legislature, and state auditor
30 setting forth a summary of the costs and expenditures of the plan for
31 the preceding year. The board shall also retain the services of an
32 independent, certified public accountant who shall annually audit the
33 expenses of the fund and whose report shall be included in the board's
34 annual report.

35 NEW SECTION. **Sec. 6. CONTRIBUTIONS.** (1) The board of trustees
36 shall establish contributions as set forth in this section. The cost
37 of the minimum benefits as defined in this plan shall be funded on the
38 following ratio:

1 Employee contributions 50%

2 Employer contributions 30%

3 State contributions 20%

4 (2) The minimum benefits shall constitute a contractual obligation
5 of the state and the contributing employers and may not be reduced
6 below the levels in effect on July 1, 2003. The state and the
7 contributing employers shall maintain the minimum benefits on a sound
8 actuarial basis in accordance with the actuarial standards adopted by
9 the board.

10 (3) Increased benefits created as provided for in section 5 of this
11 act are granted on a basis not to exceed the contributions provided for
12 in this section. In addition to the contributions necessary to
13 maintain the minimum benefits, for any increased benefits provided for
14 by the board, the employee contribution shall not exceed fifty percent
15 of the actuarial cost of the benefit. In no instance shall the
16 employee cost exceed ten percent of covered payroll without the consent
17 of a majority of the affected employees. Employer contributions shall
18 not exceed thirty percent of the cost, but in no instance shall the
19 employer contribution exceed six percent of covered payroll. State
20 contributions shall not exceed twenty percent of the cost, but in no
21 instance shall the state contribution exceed four percent of covered
22 payroll. Employer contributions may not be increased above the maximum
23 under this section without the consent of the governing body of the
24 employer. State contributions may not be increased above the maximum
25 provided for in this section without the consent of the legislature.
26 In the event that the cost of maintaining the increased benefits on a
27 sound actuarial basis exceeds the aggregate contributions provided for
28 in this section, the board shall submit to the affected members of the
29 plan the option of paying the increased costs or of having the
30 increased benefits reduced to a level sufficient to be maintained by
31 the aggregate contributions. The reduction of benefits in accordance
32 with this section shall not be deemed a violation of the contractual
33 rights of the members, provided that no reduction may result in
34 benefits being lower than the level of the minimum benefits.

35 (4) The board shall manage the trust in a manner that maintains
36 reasonable contributions and administrative costs. Providing
37 additional benefits to members and beneficiaries is the board's
38 priority.

1 (5) All earnings of the trust in excess of the actuarially assumed
2 rate of investment return shall be used exclusively for additional
3 benefits for members and beneficiaries.

4 NEW SECTION. **Sec. 7.** NONAPPLICABILITY OF JOINT COMMITTEE ON
5 PENSION POLICY AND PENSION FUNDING COUNCIL. The joint committee on
6 pension policy established in RCW 44.44.050, and the pension funding
7 council created in RCW 41.45.100, shall have no applicability or
8 authority over matters relating to this plan.

9 NEW SECTION. **Sec. 8.** ASSET MANAGEMENT. Assets of the plan shall
10 be managed by the state investment board as provided by law.

11 NEW SECTION. **Sec. 9.** SEVERABILITY. If any provision of this act
12 or its application to any person or circumstance is held invalid, the
13 remainder of the act or the application of the provision to other
14 persons or circumstances is not affected.

15 NEW SECTION. **Sec. 10.** CAPTIONS NOT LAW. Captions used in this
16 act are not any part of the law.

17 NEW SECTION. **Sec. 11.** IMPLEMENTING LEGISLATION. The department
18 of retirement systems and the office of the state actuary shall prepare
19 and submit to the fiscal committees of the legislature by January 15,
20 2003, proposed legislation for implementing this act.

21 NEW SECTION. **Sec. 12.** CODIFICATION. Sections 1 through 9 of this
22 act are each added to chapter 41.26 RCW.

23 NEW SECTION. **Sec. 13.** EFFECTIVE DATE. Except for section 11 of
24 this act, the remainder of this act takes effect July 1, 2003.

--- END ---

OFFICE OF THE STATE ACTUARY

Proposed Contribution Rates – 2003-2005

	Plan 1		Plan 2/3	
	Current	Proposed*	Current	Proposed*
PERS				
Member	6.00%	6.00%	**0.65%	**1.41%
Employer	1.10%	2.05%	0.65%	1.41%
Plan 2/3 Employer for Plan 1	–	–	0.45%	0.64%
Total Employer	1.10%	2.05%	1.10%	2.05%
TRS				
Member	6.00%	6.00%	**0.15%	**1.20%
Employer	1.05%	2.22%	0.65%	1.50%
Plan 2/3 Employer for Plan 1	–	–	0.40%	0.72%
Total Employer	1.05%	2.22%	1.05%	2.22%
SERS				
Member	–	–	**0.35%	**1.10%
Employer	–	–	0.51%	1.10%
Plan 2/3 Employer for Plan 1	–	–	0.45%	0.64%
Total Employer	–	–	0.96%	1.74%
LEOFF				
Member	0.00%	0.00%	4.39%	5.05%
Employer	0.00%	0.00%	2.64%	3.03%
State	0.00%	0.00%	***1.75%	***2.02%
Plan 2/State for Plan 1	–	–	0.00%	0.00%
Total State	0.00%	0.00%	***1.75%	***2.02%
WSP				
Member	2.00%	2.00%	–	–
Employer	0.00%	0.00%	–	–

* Effective 2003.

** Applies to Plan 2 Only.

*** Applies to LEOFF 2 Salaries Only.

Washington State Pension Funding Council

Overview

**John Charles
Chair**

September 18, 2002

Pension Funding Council Membership

◆ Six Members:

- Senate Ways and Means Committee Chair and ranking minority member
- House Appropriations Committee Chair and ranking minority member
- Director of the Department of Retirement Systems
- Director of the Office of Financial Management

Pension Funding Council Roles

- ◆ Adopt employer and member contribution rates for all retirement plans except:
 - PERS Plan 1, TRS Plan 1 and WSPRS Plan 1 and Plan 2 member rates (set in statute)
 - TRS, SERS, and PERS Plan 3 member rates (chosen by the member)

Pension Funding Council Roles

- ◆ Adopt long-term economic assumptions and the asset value smoothing technique used by the Office of the State Actuary beginning in 2004

Pension Funding Council Roles

- ◆ Solicit and administer a biennial audit of the actuarial valuation used for rate-setting purposes
- ◆ Solicit and administer an audit of the experience study that is prepared by the Office of the State Actuary every six years
- ◆ Receive public comment

Pension Funding Council Workgroup

◆ Membership

- Six staff members representing:
 - ◆ Senate Ways & Means Committee
 - ◆ House Appropriations Committee
 - ◆ Office of Financial Management
 - ◆ Department of Retirement Systems
 - ◆ State Investment Board
 - ◆ Economic Revenue and Forecast Council

Pension Funding Council Workgroup

◆ Roles

- Prepare actuarial audit RFPs
- Manage audit contracting process
- Provide for and receive public comment
- Prepare briefings for Council
- Provide support to Council

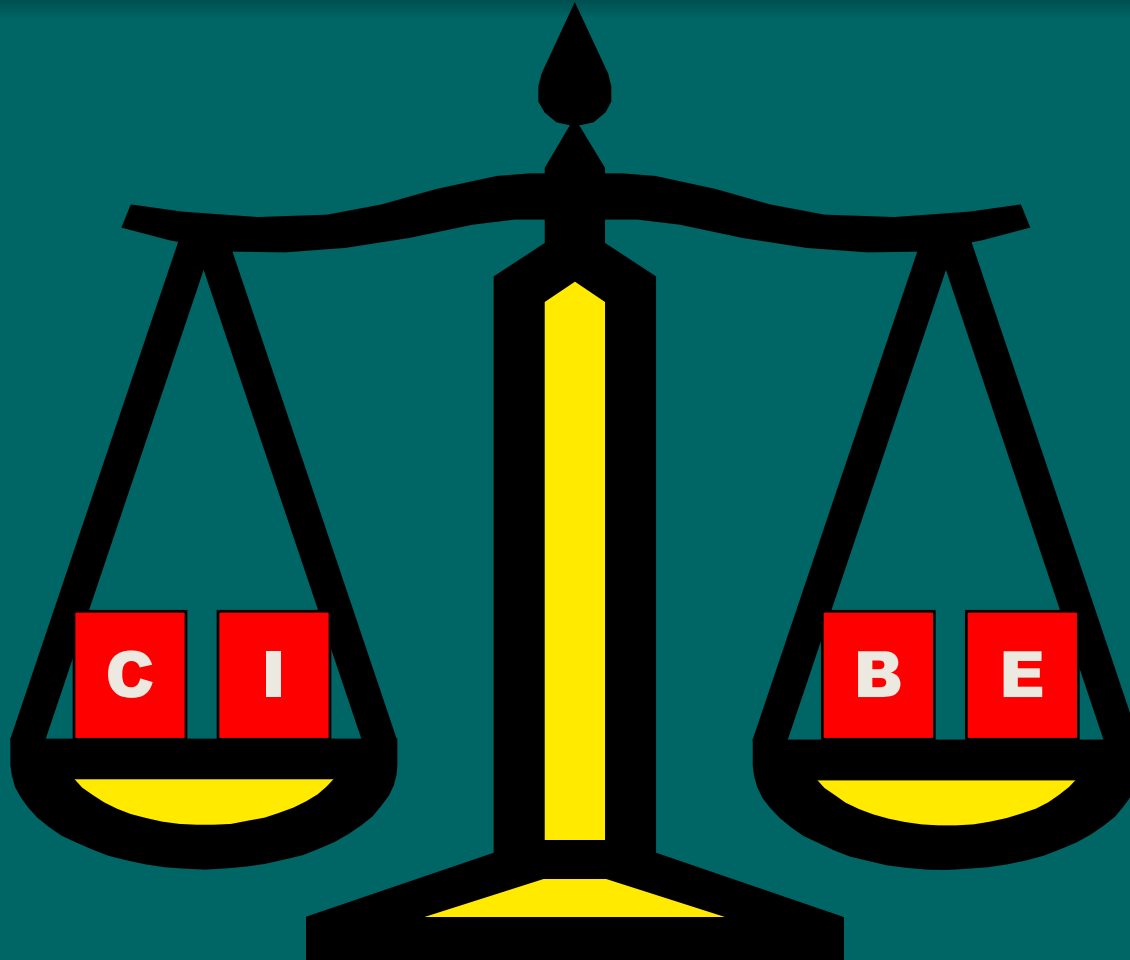
Pension Funding Council Schedule

- ◆ Adopt contribution rates by September 30 of each even-numbered year
- ◆ Adopt economic assumptions by May 31 every fourth year beginning in 2004
- ◆ Audit every even-numbered year's actuarial valuation
- ◆ Audit the actuarial experience study produced every six years

Retirement System Funding

- ◆ Goal of pension funding:
 - Match fund inflow with fund outflow over the life of a plan
- ◆ Basic Plan Formula: **C + I = B + E**
 - Contributions plus Investment Return must equal Benefits plus Expenses

Retirement System Funding



C = Contributions
I = Investment Income

B = Benefits
E = Expenses

Actuarial Valuation

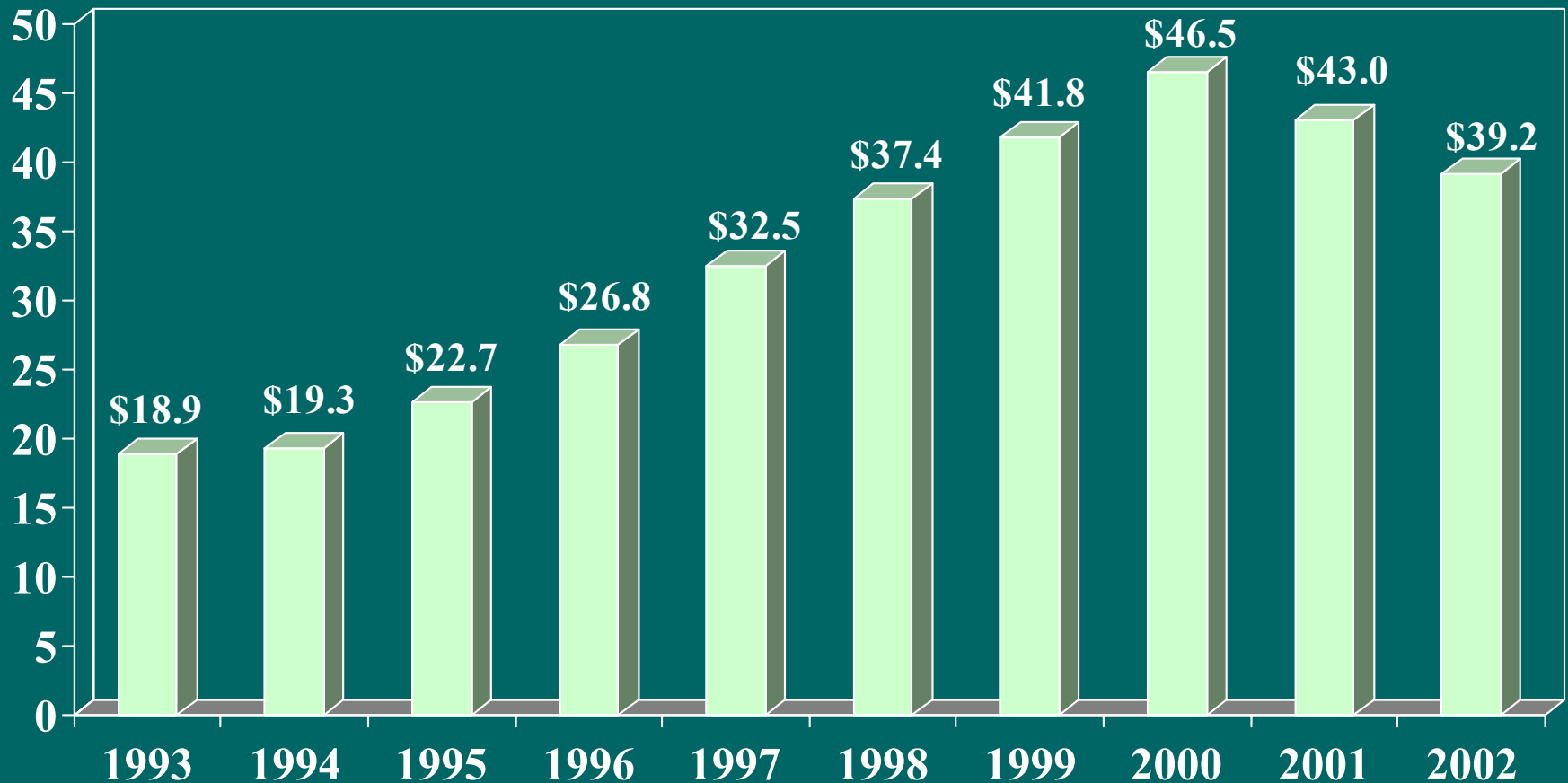
- ◆ A measurement at a point in time of the cash flows that have occurred to date versus those that are expected to come in the future

Current Assumptions

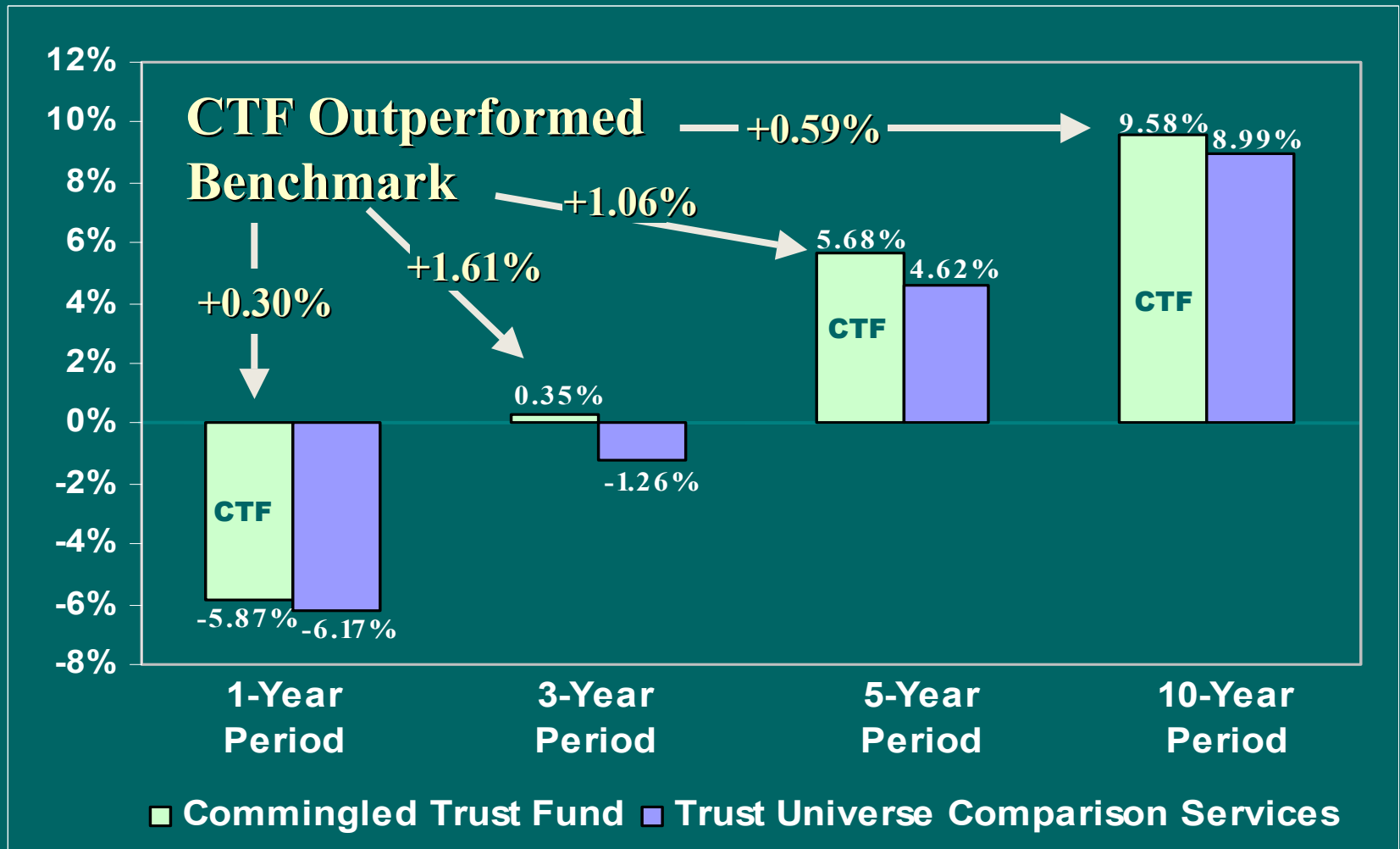
◆ Investment rate-of-return	8.0%
◆ Growth in salary	4.5%
◆ Inflation	3.5%
◆ Growth in membership	
● TRS	0.90%
● PERS, SERS, and WSPRS	1.25%
◆ Level, four-year smoothing of assets	

Commingled Trust Fund Balance

\$ Billions



Trust Fund Performance



2003-05 Contribution Rates

System/Plan	Employer	Member
PERS Plan 1	2.05% (+0.95)	6.00% *
PERS Plan 2	2.05% (+0.95)	1.41% (+0.76)
PERS Plan 3	2.05% (+0.95)	N/A
TRS Plan 1	2.22% (+1.17)	6.00% *
TRS Plan 2	2.22% (+1.17)	1.20% (+1.05)
TRS Plan 3	2.22% (+1.17)	N/A

* No change, rate set in statute

Plan 3 Member Contributions

Option A	5% fixed rate at all ages
Option B	5% up to age 35 6% ages 35 through 44 7.5% ages 45 and older
Option C	6% up to age 35 7.5% ages 35 through 44 8.5% ages 45 and older
Option D	7% fixed rate at all ages
Option E	10% fixed rate at all ages
Option F	15% fixed rate at all ages

2003-05 Contribution Rates

System/Plan	Employer	Member	State
SERS Plan 2	1.74% (+0.78)	1.10% (+0.75)	N/A
SERS Plan 3	1.74% (+0.78)	N/A	N/A
LEOFF Plan 1	0.00% *	0.00% *	0.00% *
LEOFF Plan 2	3.03% (+0.39)	5.05% (+0.66)	2.02% (+0.27)
WSPRS Plans 1 and 2	0.00% *	2.00% **	N/A

* No change

** No change, rate set in statute

2001 Funding Status Summary

(Dollars in Millions)

System/Plan	Valuation Assets	Funding Ratio
PERS Plan 1	\$10,990	97%
PERS Plan 2	11,032	179%
TRS Plan 1	9,342	100%
TRS Plans 2/3	3,547	197%
SERS Plans 2/3	1,472	197%
LEOFF Plan 1	5,369	129%
LEOFF Plan 2	2,576	154%
WSPRS	712	147%
TOTAL	\$45,038	126%

Questions?

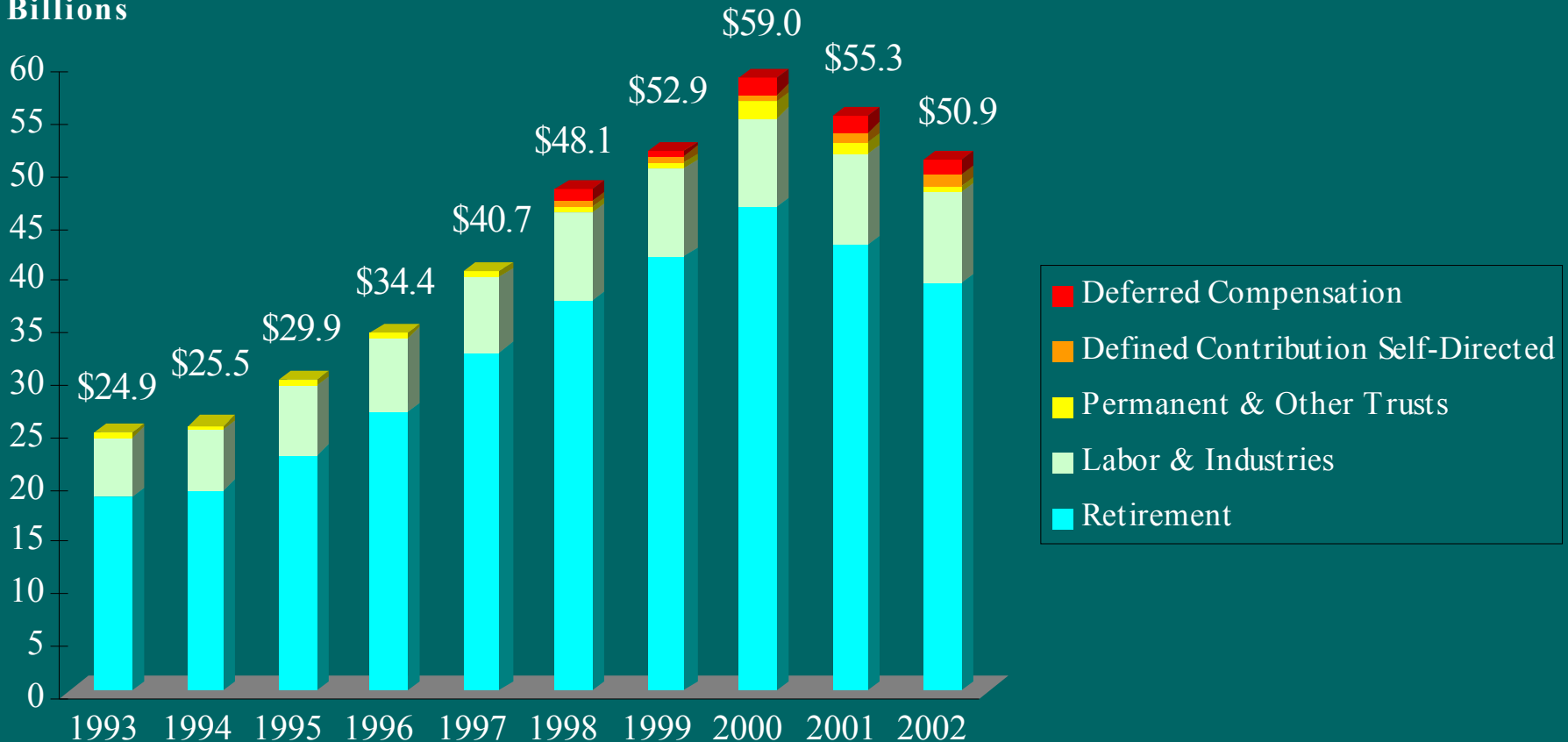
Pension Funding Goals

- ◆ Fully fund Plan 2 and 3
- ◆ Fully amortize Plan 1 costs by June 30, 2024
- ◆ Establish predictable long-term employer contribution rates which remain a relatively constant proportion of future state budgets
- ◆ Fund benefit increases over the working lives of the members

Growth of Assets

Past Ten Years
Fiscal Year Ending June 30, 2002

\$ Billions



Asset Allocation

RETIREMENT COMMINGLED TRUST FUND

June 30, 2002

<u>ASSET CLASS</u>	<u>ALLOCATION</u>		<u>POLICY</u>	<u>POLICY</u>
	<u>\$ IN 000'S</u>	<u>PERCENT</u>	<u>TARGET</u>	<u>RANGE</u>
U.S. Equity	12,970,632	33.1	31%	26-36%
Fixed Income	10,924,047	27.9	25%	21-29%
Non-U.S. Equity	5,848,137	14.9	15%	12-18%
Private Equity	5,210,305	13.7	17%	13-21%
Real Estate	3,510,312	9.2	12%	10-14%
Liquidity	<u>497,675</u>	1.3	0%	0-2%
Total CTF	38,961,107			
Plan Specific Investments*	<u>48,972</u>			
Total Retirement Funds	<u>39,010,079</u>			

Unallocated funds targeted for Private Equity and Real Estate are invested in U.S. Equities and Fixed Income, respectively.

Plan-Specific Investments are short-term investment funds for each of the separate retirement plans.

Early Retirement Analysis

Washington State Retirement Systems Membership by Age and Years of Service

PERS 1 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	449	596	352	148	64	1,609
5 – 9	614	891	689	326	124	2,644
10 – 14	758	1,262	1,005	433	130	3,588
15 – 19	749	1,276	1,061	459	94	3,639
20 – 24	1,093	1,545	1,324	601	103	4,666
25 – 29	1,860	3,476	2,190	934	242	8,702
30 or More	60	716	974	515	178	2,443
Total	5,583	9,762	7,595	3,416	935	27,291

PERS 2/3 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	41,709	4,645	2,452	917	436	50,159
5 – 9	25,362	5,417	3,471	1,685	493	36,428
10 – 14	18,964	5,730	3,893	2,104	585	31,276
15 – 19	8,642	3,622	2,666	1,674	390	16,994
20 – 24	3,904	2,444	1,681	937	213	9,179
25 – 29	3	1	4	6	1	15
30 or More	0	3	3	0	0	6
Total	98,584	21,862	14,170	7,323	2,118	144,057

* Boxed areas indicate eligibility for normal retirement.

TRS 1 Membership by Age and Years of Service
September 30, 2001 active and term vested members

Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	38	164	117	28	8	335
5 – 9	133	428	402	136	21	1,120
10 – 14	170	620	674	158	21	1,643
15 – 19	215	771	812	181	23	2,002
20 – 24	730	1,313	878	206	27	3,145
25 – 29	648	3,447	1,312	273	47	5,727
30 or More	0	547	1,016	324	73	1,960
Total	1,934	7,290	5,211	1,306	220	15,961

TRS 2/3 Membership by Age and Years of Service
September 30, 2001 active and term vested members

Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	17,697	1,498	573	126	18	19,912
5 – 9	11,691	2,087	1,022	357	50	15,207
10 – 14	7,486	2,287	1,169	386	48	11,376
15 – 19	3,718	1,246	813	331	27	6,135
20 – 24	1,925	959	561	217	29	3,691
25 – 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	42,517	8,077	4,138	1,417	172	56,321

* Boxed areas indicate eligibility for normal retirement.

LEOFF 1 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	0	3	0	0	0	3
5 – 9	2	1	0	1	0	4
10 – 14	3	4	0	0	0	7
15 – 19	4	3	3	1	0	11
20 – 24	88	66	9	0	0	163
25 – 29	207	462	122	9	0	800
30 or More	0	115	204	35	2	356
Total	304	654	338	46	2	1,344

LEOFF 2 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	3567	52	14	4	0	3,637
5 – 9	3357	94	35	15	1	3,502
10 – 14	2849	176	55	9	2	3,091
15 – 19	1607	221	68	20	2	1,918
20 – 24	1248	414	71	5	1	1,739
25 – 29	0	1	0	0	0	1
30 or More	0	0	0	0	0	0
Total	12,628	958	243	53	6	13,888

* Boxed areas indicate eligibility for normal retirement.

SERS 2/3 Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	17,168	2,230	1,123	521	216	21,258
5 – 9	8,594	2,401	1,137	472	221	12,825
10 – 14	4,592	2,607	1,613	631	216	9,659
15 – 19	1,239	1,213	1,142	564	121	4,279
20 – 24	481	438	565	337	71	1,892
25 – 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	32,074	8,889	5,580	2,525	845	49,913

* Boxed areas indicate eligibility for normal retirement.

WSP Membership by Age and Years of Service September 30, 2001 active and term vested members						
Years of Service	49 or less	50-54	55-59	60-64	65 or Older	Total
0 – 4	240	6	0	0	0	246
5 – 9	162	5	1	0	0	168
10 – 14	271	5	3	0	0	279
15 – 19	157	8	1	1	0	167
20 – 24	90	15	2	0	0	107
25 – 29	21	32	6	0	0	59
30 or More	0	11	14	2	0	27
Total	941	82	27	3	0	1,053

* Boxed areas indicate eligibility for normal retirement.

Early Retirement Windows



Joint Committee on Pension Policy
Presented May 21, 1998

Prepared by:

Christine Masters Ryser
Research Analyst

Situation Summary:

The issue of early retirement continues to be a topic of interest for legislators, governmental agencies and individual members. This report updates information contained in the 1996 early retirement report and presents policy issues related to targeted early retirement windows.

Background:

Early Retirement Windows and Retirement Incentives:

Normal retirement is what occurs after a member has fulfilled the requirements for receiving an unreduced benefit from their retirement system. Eligibility for normal retirement in the Washington retirement systems varies among the systems and Plans.

Members of the Public Employees' Retirement System Plan 1 (PERS 1 and the Teachers' Retirement System Plan 1 (TRS 1) can qualify for an unreduced benefit by meeting one of three combinations of age and/or service. Washington State Patrol (WSP) members must meet one of two combinations of age and/or service. Members of the Law Enforcement Officers' Retirement System Plan 1 (LEOFF 1) must earn at least five years of service and reach a specific age. These same requirements apply to members of the Plan 2 and Plan 3 systems.

In addition to normal retirement, the Plan 2 systems provide members with an on-going opportunity to retire early. The benefit provided by this option is actuarially reduced to reflect the additional years the member will receive payments. **Table #1** provides the eligibility requirements for each of the major Washington retirement systems.

TABLE #1
Washington Retirement Systems' Retirement Criteria

<u>System</u>	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
LEOFF	Age 50/5 YOS	Age 55/5 YOS *Age 50/20 YOS	NA
PERS	Age 60/ 5 YOS Age 55/25 YOS Any Age/30 YOS	Age 65/5 YOS *Age 55/25 YOS	NA
TRS	Age 60/5 YOS Age 55/25 YOS Any Age/30 YOS	Age 65/5 YOS *Age 55/20 YOS	Age 65/5 YOS *Age 55/10 YOS
WSP	Any Age/25 YOS Age 55/5 YOS		

* Benefit reduced from age 65.

For purposes of this report, early retirement is discussed in terms of a temporary opportunity (window) allowing certain members to leave employment before normal retirement and begin receiving an unreduced benefit immediately. Early retirement is **not** considered in the context of:

- ◆ Lowering the normal retirement age; or
- ◆ A permanent option allowing members to retire earlier with a reduced benefit. (As exists in the Plan 2 retirement systems.)

There are two types of early retirement windows (ER windows) "blanket" and "targeted". Blanket programs provide early retirement to a large segment of the membership. Usually blanket windows are offered to all members of a retirement system who meet certain age and service requirements. Targeted windows are programs offered to a much smaller group of members, for instance, the employees of a particular agency or facility.

The primary difference in the two types of windows is the scope of the offering. Both blanket and targeted windows are designed to achieve the same end: the voluntary termination of members close to retirement.

In the past, Washington has provided six programs to stimulate retirement among members. While the goals of these programs have varied, all have targeted members of the Public Employees' Retirement System Plan 1 (PERS 1) and/or Teachers Retirement System Plan 1 (TRS 1).

In addition to ER windows, Washington has also employed incentives to encourage members to leave service. As used in the past, incentives are cash payments or increases in salary offered to members already eligible to retire in exchange for the member's agreement to leave service within a certain time period. In other states, incentives have been combined with early retirement to increase the attractiveness of a program. A common combination is to allow members to retire a few years early and credit them with one additional year of service for every X number of years of service already earned.

History of Incentives and Early Retirement Programs:

Incentives and retirement programs offered in the past have been driven by personnel concerns. The goals of these programs can be divided into three categories:

- ◆ Easing adverse impacts on members employed by an abolished agency.
- ◆ Encouraging members close to, or already eligible for retirement, to do so.
- ◆ Reducing FTE's and compensation costs.

Table #2 is a summary of the six programs. A more complete description is contained in **Appendix B**.

TABLE #2
Incentives and Early Retirement Windows
Offered in Washington State

Year	Program
1973	Northern State Hospital When the state decided to close Eastern Washington Hospital, Chapter 43.130 was enacted to provide affected personnel with three options: <ul style="list-style-type: none"> * Relocate to other state employment; * Receive termination pay; or * Members age 55 with five years of service could retire without actuarial reduction in the benefit amount. Members age 45 with 5 years of service could retire with a benefit actuarially reduced from age 55.
1982	Plan 1 Early Retirement Window Revenue shortfalls prompted the Legislature to allow PERS 1 and TRS 1 members to retire up to five years early without an actuarial reduction in benefits. Active members within five years of normal retirement eligibility were targeted. Legislation did not include any restrictions on retirees returning to work.
1992	Community College/K-12 Retirement Incentives TRS 1 members within two years of retirement eligibility were offered additional teaching hours with increased salary if they agreed to waive their rights to tenure at the end of the two years. The increased work hours and salary served to boost the members average final compensation and retirement benefit. The Department of Retirement Systems has since notified employers that such incentives are not reportable as compensation.
1992/ 1993	Plan 1 Early Retirement Windows Educational reform and government streamlining prompted the Legislature to offer PERS 1 and TRS 1 members the opportunity to retire up to five years early without an actuarial reduction in benefits. Eligibility requirements were the same as for the 1982 window. Legislation included restrictions on retirees returning to work.
1995	Department of Transportation Retirement Incentive Certain PERS 1 DOT employees past retirement eligibility were offered cash incentives to terminate employment. Incentive amounts were based on the member's years of service.

Retirement Benefit Policies:

In 1993 the Joint Committee on Pension Policy (JCPP) adopted a set of retirement benefit policies. As a whole, these policies were designed to develop long-term strategies for pension benefits that would best meet the needs of employees, retirees and employers within available resources. These policies do not focus directly to ER windows, but they do establish a framework for considering early retirement issues.

Three policies inherent in the Plan 2 systems were identified for continuation:

- ◆ All state and local employees should have essentially the same retirement plans;
- ◆ Retiree benefits should have some form and degree of protection from inflation'
- ◆ Costs should be shared equally between employees and employers.

New Plans, or changes to current plans should be based on the following additional policies:

- ◆ Sufficient income after leaving the workforce should be from a combination of Social Security, retirement benefits and employee savings.
- ◆ Employees must take responsibility for insuring they have a sufficient income after retirement.
- ◆ Retirement benefits are intended to provide income after leaving the workforce.
- ◆ Employees who vest and leave should be provided reasonable value toward their ultimate retirement for their length of service.
- ◆ Retirees should have more flexibility in determining the form and timing of their benefit.
- ◆ Plan design should be as neutral as possible in its affect on employees:
 - ◇ It should not inhibit employees from changing careers or employers.
 - ◇ Employees should not be encouraged to stay in jobs they consider highly stressful.
 - ◇ Employees should not be encouraged to seek early retirement.
- ◆ Any new retirement plan shall not exceed the Plan 2 cost.

Benefit Funding:

Retirement benefits are funded by contributions from employees and their employers. In the case of the LEOFF systems, the state also pays a portion of benefit costs. Contribution rates are fixed in statute for Plan 1 and WSP members; and for LEOFF 1 employers. PERS 1 and TRS 1 employers and the state contribute at a rate calculated to properly fund the systems. Since their rates are based on statute and not cost, Plan 1 and WSP members do not pay for increases in benefits. Employers and the state must pay any additional costs.

PERS and TRS Plan 2 members and employers each contribute one half of the total cost of benefits. In LEOFF 2, the state pays 40% of the cost and the remainder is split between members and employers. In this funding approach, members pay one half the cost of benefit increases.

TRS 3 members do not contribute to their defined benefits. Only their employers contribute. Thus, any increases in benefits are paid for by the employer.

TABLE #3
Contribution Rates Charged as of 9/1/97

	PERS		TRS			LEOFF		WSP
	Plan 1	Plan 2	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	
Employee	6.00%	4.65%	6.00%	6.03%	NA	6.00%	8.48%	7.00%
Employer	7.32%	7.32%	11.75%	11.75%	11.75%	6.00%	5.09%	11.05%
State						9.21%	9.21%	

Cost-of-living Adjustments:

When members leave the workforce early, they are expected to spend more years in retirement. The longer a member receives a retirement benefit, the more important cost-of-living adjustments to that benefit become.

Automatic annual cost-of-living adjustments (COLAs) are provided retirees in all of the Washington retirement systems. The Plan 2 and 3 systems all receive the same type of adjustments. The PERS and TRS Plan 1 systems receive adjustments through an annual increase call "the Uniform COLA". LEOFF 1 and WSP retirees each receive increases based on a separate mechanism.

TABLE #4
Washington Retirement Systems
Overview of Cost-of-living Adjustment Designs

<u>Plan</u>	<u>COLA Design</u>	<u>When Received</u>
PERS 1/ TRS 1	Automatic annual increases. Increase is a flat-rate amount per year of service. It is increased by 3% each year.	Member has reached age-66 and been retired for one year.
LEOFF 1	Automatic annual adjustment Increase is equal to advances in the Seattle Consumer Price Index.	Member has been retired one year.
All Plans 2/ TRS 3	Automatic adjustment matches advances in the Seattle Consumer Price Index, up to 3% a year.	Member has been retired one year.
WSP	Automatic annual adjustment of 2% of benefit.	Member has been retired one year.

Policy Issues:

1. **Early Retirement Windows are a Personnel Tool:** Employers promoting early retirement stress its usefulness as a method for reducing personnel. Employed in this manner early retirement becomes a matter of personnel policy, not retirement policy.
2. **Are Early Retirement Windows an Employee Benefit?** Employees have expressed an interest in leaving public service at a younger age with a retirement allowance. A number of factors outside the pension system directly impact members' ability to maintain their standard of living once they leave the workforce.
3. **The Effect of Early Retirement Windows on the Normal Retirement Age Policy:** Current eligibility for normal retirement is age-65. Allowing early retirement undermines this policy.
4. **Compensation Savings vs. Increases in the Retirement System Costs:** Claims of fiscal savings are often made when early retirement is proposed. While some savings may be realized in compensation costs, early retirement increases liabilities to the retirement system.
5. **Plan 2 Considerations:** Until now all early retirement efforts have been aimed at Plan 1 members. In the future, Plan 2 members will be targeted. Differences in the way benefits in the Plan 1 and Plan 2 systems are funded have significant implications for early retirement windows.

Analysis:

1. Early Retirement as a Personnel Tool:

Temporary early retirement windows and incentives are not prompted by retirement issues. They are tools to address personnel problems. Three common uses are:

- ♦ **When a facility is closed or staff size is greatly reduced.** In loyalty to employees close to retirement, an employer may offer an early retirement program.
- ♦ **To alter the mix of high and low seniority employees who are terminated during a lay-off.** When senior employees retire, it may allow the employer to reduce cut-backs among shorter-term employees.

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- ◆ **To foster innovation.** Shorter-term employees may be more open to new employer initiatives. Encouraging retirement of longer-term employees may prune "dead wood".

None of these uses stem from retirement issues. In fact, they may be counter-productive to retirement policies adopted by the JCPP in 1992. In employing ER windows, the employer must judge the benefits gained from employees leaving the workforce against the pressure it places on retirement benefit goals.

ER programs also have the potential to create personnel problems. Employers have a limited control over who takes advantage of an ER opportunity. The employer can set requirements for eligibility, but it is the individual employee's decision whether to take advantage of the offer. Difficulties arise when a greater or lesser number of employees may decide to retire than anticipated further impacting staffing levels. A second danger of such programs is that critical employees may choose to retire, disrupting the provision of services or the completion of projects. Short time periods for taking advantage of a window further exacerbate this problem.

2. Early Retirement as an Employee Benefit:

There are employers who view ER windows as a periodic supplemental benefit. They see early retirement not only as a means to aid themselves, but also provide older employees with a special opportunity to leave service earlier. While this view may be well intentioned, earlier retirement is not always to the long-term benefit of employees.

Workers who retire early face the challenge of maintaining their standard of living over a longer period of time than retirees who leave at normal retirement. In some cases, this may not be an issue. ER windows can be a boon to employees who:

- ◆ Wish to pursue a second career, while receiving income from their first career.
- ◆ Are affected by health disabilities.
- ◆ Have planned to leave the workforce before eligibility and are financially secure.
- ◆ Have access to affordable health care insurance.

PERS 1 members are especially likely to benefit from ER windows. There are no provisions to allow early retirement with a reduced benefit in the Plan 1 systems. In PERS 1, terminated-vested members (those with at least 5 years of service who leave service without withdrawing their contributions), are not eligible to begin drawing an unreduced retirement benefit until age 65. Benefits can be paid at age 60, but are actuarially reduced from age 65. The effect of these provisions is that members who do not continue working until retirement eligibility must either wait to receive their benefits or accept a reduced amount.

This delay in terminated-vested benefits does not occur in other Washington retirement systems. TRS 1 terminated-vested members, and members of the Plan 2 and Plan 3 tiers, can begin receiving unreduced benefits when they reach eligibility for normal retirement.

Employers may view an ER window as a good solution to a personnel problem, and employees see them as a short cut to the "golden years", but four factors require consideration.

The reduced size of the retirement benefit:

Early retirees receive a smaller retirement allowance than they would have if they worked until normal retirement age. An early retiree permanently forgoes additional service credit, as well as potential future salary increases, in lieu of early receipt of the retirement allowance.

Inflation:

In Plan 1, cost-of-living adjustments (COLAs) do not begin until the retiree has reached age-66. In previous ER windows offered by the state, retirees could be as young as age 50. This means some benefit purchasing power will be lost to inflation before the retiree becomes eligible for an annual increase. The amount of the loss could be a little or a lot depending on the rate of inflation and the retiree's age.

Fixed benefits and loss of purchasing power bring discontent. The bulk of persons who sought COLAs in the late 1980s and early 1990s were those whose benefits had been eroded by inflation.

Eligibility for Social Security:

First eligibility for Social Security now occurs at age 62. This "early retirement" benefit is roughly 80% of the amount a worker would receive at age 65. A public employee who leaves employment early will not be eligible for Social Security for even this reduced benefit for several years. In addition, individuals who do not work up until eligibility are likely to receive a lower benefit.

The age at which the full Social Security benefit is obtained is increasing. **Appendix C** shows how the increase in full benefit eligibility is being implemented. The reduction for retirement at age-62, from Social Security is also rising. The person who retires now at age 62 receives a benefit approximately 20% less than the full retirement benefit. For the person who is age 62 in the year 2022, the benefit will be approximately 30% less than the full retirement benefit.

The cost of health care insurance:

At age-65 retirees become eligible for Medicare. Typically the cost of health care insurance is reduced at this age to reflect coverage under the federal program.

Appendix D reflects data from the Washington State Health Care Authority rate schedule, effective January 1, 1998. It shows the monthly premium rates for the pre-age 65 retiree only; and the retiree and spouse. The cost of these premiums range from \$143 to \$179 a month for the retiree only; and from \$262 to \$354 for the retiree and spouse.

3. The Effect of Early Retirement on Normal Retirement Age Policy:

A fundamental impact of early retirement programs is the pressure it exerts on normal retirement age policy. The Legislature established that full retirement benefits will not be paid until the member attains age-65. This policy was established in the creation of PERS 2 and TRS 2. It was reinforced in the creation of TRS 3 and SERS 3.

Early retirement is a limited benefit. Only members who meet the eligibility criteria benefit from it, others gain nothing. Members not eligible for one window will create pressure for another. Adding to this, is the fact that the state has offered three large-scale early retirement windows since 1982. The frequency of these past programs has built an expectation of future programs.

At some point, the expectation and frequency of future ER windows undermines normal retirement policy. Where that line falls may be difficult to determine, except in retrospect. At that point, it may be difficult to reverse the trend.

4. Fiscal Impacts and Policy:

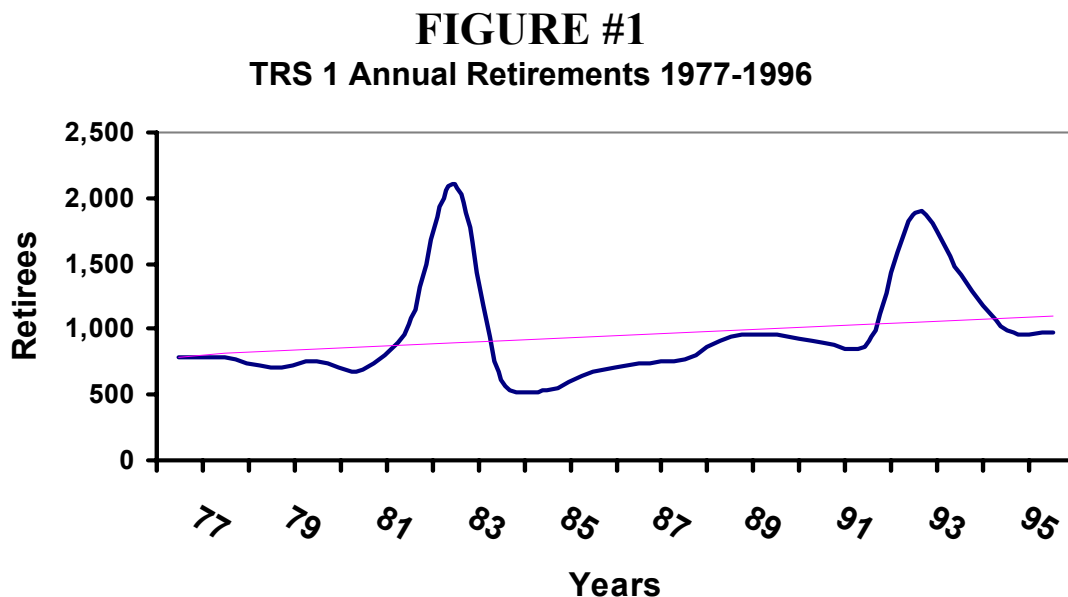
A common justification for early retirement is that it saves the employer money by reducing payroll costs. If salary savings do occur, they seldom compare favorably to the increased costs to the retirement systems. The fiscal impact of ER windows is to temporarily lower payroll costs, while increasing retirement system liabilities. Agencies also experience impacts from unbudgeted cash-outs of unused employee leave.

Compensation Savings:

The "compensation savings" theory of ER windows is relatively straightforward. Windows encourage senior employees, who are earning relatively high salaries, to leave employment. These employees are then replaced by employees earning lower salaries. The difference between the senior employee's salary and the replacement's salary constitutes a savings for the employer.

The replacement of personnel that occurs as a result of ER windows is the same one that occurs when an individual reaches normal retirement. The only difference between early and normal retirement is timing. With an ER window, a large group of employees may leave at one time. Any savings that are realized in a window are simply realized all at once instead of over a period of time. Nothing happens in an ER window that would not have happened within the next few years as workers become eligible for normal retirement.

Figure #1 shows TRS 1 retirements from 1977 through 1995 and a retirement trend line. There are peaks when an ER window is offered and in subsequent years, subnormal retirements occur. The ER window has "borrowed" retirees from the next five years, when those employees would have reached eligibility under normal retirement rules.



Though easy to understand in theory, the cost savings of ER windows are difficult to demonstrate in practice. A number of factors complicate this calculation.

- ◆ **Replacement salaries** In theory, an ER window replaces a high-paid employee, with a low-paid one. In practice, it is usually an employee who is already close in pay to the retiree who moves into that position. This sets off a series of promotions within the agency and eventually an entry-level employee is hired. To calculate the "savings" does the analyst use the salary of the new hire, or the worker who actually replaced the retiree?
- ◆ **Rate of replacement** Real salary savings occur only if the retiree is not replaced. This rarely happens except in situations where a facility closes or agency is abolished. Assumptions about the length of time a retiree's position will go unfilled impact the estimation of compensation savings.

-
- ◆ **Training costs** Replacement employees may need additional training to perform their new responsibilities. Should these costs be included in the savings calculation?

The only salary data available regarding Washington's ER windows comes from the 1992 program. The Office of Financial Management (OFM) had agencies report their savings after the retirement of their employees. OFM estimated the state saved approximately \$1 million in salary savings from PERS 1 early retirees and approximately \$8.6 million from TRS 1.

The Office of the State Actuary (OSA) also conducted a study of the 1992 early retirement window. From the data it received, it was estimated that from \$90,000 to \$400,000 was saved in salaries as a result of PERS 1 retirees and between \$7.2 million and \$16.8 million was saved as a result of TRS 1 retirees. The variability of results from the two studies underscores the difficulty of calculating savings.

Whatever savings may be attributed to an ER window, they are only effective in the current fiscal period. Economies in government are not accumulated from one budget cycle to the next.

Actuarial Impacts:

Except in LEOFF 1, service retirement is the most expensive element of the state's retirement system. Early retirement increases this cost by providing additional years in retirement, while shortening the funding period. **Tables #5 and #6** provide a relative breakdown of benefit costs without an ER window.

TABLE #5
Distribution of Plan 1 Retirement Costs

<u>Benefit</u>	<u>PERS 1</u>	<u>TRS 1</u>	<u>LEOFF 1</u>
Service Retirement	86.1%	90.2%	26.8%
Disability	2.2%	1.3%	67.2%
Death	1.1%	0.6%	3.2%
Withdrawal	10.6%	7.9%	2.9%
Total	100.0%	100.0%	100.0%

TABLE #6
Distribution of Plan 2 Retirement Costs

<u>Benefit</u>	<u>PERS 2</u>	<u>TRS 2</u>	<u>LEOFF 2</u>
Service Retirement	84.4%	89.9%	94.2%
Disability	1.8%	0.7%	0.6%
Death	1.2%	0.5%	0.4%
Withdrawal	12.7%	8.9%	4.8%
Total	100.0%	100.0%	100.0%

Table #7 shows employer costs for the early retirement programs of 1982, 1992 and 1993. The amounts shown are for the first biennial period only. They are represented in 1996 dollars. Increases in contributions rates to fund these programs are applied to all earnable compensation and will be paid by all employers through June 30, 2024.

TABLE #7
Actuarial Costs for Early Retirement
Programs in 1982, 1992 and 1993
(\$ in Millions)

		2-Year Cost		25-Year Cost		Unfunded Accrued Actuarial Liability
		General Fund-State	All Funds	General Fund-State	All Funds	
1982						
PERS 1	1,416	\$ 1.1	\$ 4.1	\$ 28	\$ 107	\$ 36.7
TRS 1	1,023	3.4	4.2	84	104	40.5
1992						
PERS 1	1,198	0.7	2.7	19	73	31.0
TRS 1	818	2.9	3.6	72	89	32.3
1993						
PERS 1	867	0.7	2.7	19	73	22.4
TRS 1	410	1.4	1.7	36	45	16.2

As a matter of comparison, salary data collected by OFM and OSA estimated compensation savings for the 1992 ER program between \$8 and \$17.2 million for PERS 1 and TRS 1 combined. The present value of the unfunded liability incurred by the 1992 ER window was \$63.3 million.

Terminal pay and cash-outs:

When employees retire, they are often eligible to receive cash payments for unused annual leave, sick leave and other benefits. Some of these payments can be quite large. When an ER window is offered, a large group of employees may leave an agency within a short time. The cost of unanticipated cash-outs can be disruptive to an agency and may put its programs into jeopardy in the short run.

5. Plan 2 Considerations:

To date, ER windows have only targeted members of the PERS and TRS Plan 1 systems. These plans have been closed to new members for 22 years. The bulk of Washington's public employees now belong to Plans 2 and 3. If employers are going to continue to use ER windows to manage their workforces, they will have to begin offering them to Plan 2 and 3 members. Key differences in these tiers' benefit structures introduce additional policy issues.

Funding:

In the Plan 1 tiers, members pay a fixed contribution rate. In the Plan 3 tiers, the member does not contribute to the defined benefit portion of the retirement benefits. In both Plans, any increases in benefits, such as an ER window, would be paid for with an increase in employer contributions.

The Plan 2 tiers present a different situation. Benefit costs are split evenly between the employer and the employee. When the cost of benefits increase, both are required to contribute more. If an ER window is offered in Plan 2, both employers and employees will see contributions rise. Non-eligible members would be expected to pay for the program even though they cannot benefit from it.

Retirement Age:

Plan 1 members have three options for meeting retirement eligibility:

- ◆ Age 60 with 5 years of service;
- ◆ Age 55 with 25 years of service; or
- ◆ Any age with 30 years of service.

These age and service options produce retirees at a range of ages roughly from 49 to 60 years. When ER windows are targeted as they have been, by reducing eligibility 5 years, they produce retirees who range in age from 45 to 55.

In contrast to the Plan 1 tiers, eligibility for normal retirement in Plan 2 is age-65. Lowering eligibility 5 years brings that number to age 60. An ER window of this design only affects older members. A program aimed at this population may be viewed as age-discriminatory.

Reduction Factors for the On-going Early Retirement Benefit:

Plan 2 members have a permanent option to retire with a reduced benefit at age 55 with 25 years of service. (See **Table #1**.) An ER window targeted to Plan 2 members will have to determine an equitable policy for members who wish to retire under this eligibility during the ER window. If a window is designed as the Plan 1 windows have been, Plan 2 members could retire at age-60 with 5 years of service:

- ◆ Does this mean that members who are age 50 with 15 years of service qualify for the on-going reduced early retirement benefit during the open window?
- ◆ Do members who meet the age-60 requirement see their benefit reduced from age 60, rather than the normal retirement age of 65?
- ◆ Should the members who are retirement eligible under the on-going early retirement option receive any incentives to retire during a ER window ?

Policy Questions:

There are several policy questions that might be considered with regard to early retirement programs. Two general areas to consider are: the early retirement program itself and responsibility for funding the program.

Early Retirement Program Design:

- ◆ Should early retirement continue to be used as an ad hoc supplemental retirement benefit?
- ◆ Should the Joint Committee adopt a set of guidelines to be used if future early retirement programs are offered?
- ◆ Should early retirement be established as a permanent program to be initiated by the employer?
- ◆ Should early retirement be targeted to identified employee categories?

Early Retirement Program Funding:

- ◆ Should payment continue to be made by all employers or only by those employers affected by early retirement?
- ◆ Should payment of the costs of early retirement be amortized or paid immediately?

Appendix A

Washington State Retirement Systems Membership by Age and Years of Service

PERS 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	1,215	499	271	88	38	2,111
5 - 9	1,791	843	420	204	59	3,317
10 - 14	1,869	999	566	262	66	3,762
15 - 19	2,168	1,184	868	412	101	4,733
20 - 24	5,748	3,413	2,333	1,163	277	12,934
25 - 29	1,469	2,433	1,262	709	191	6,064
30 or More	41	389	476	278	105	1,289
Total	14,301	9,760	6,196	3,116	837	34,210

PERS 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	51,743	4,577	1,990	994	466	59,770
5 - 9	37,823	6,097	2,939	1,442	550	48,851
10 - 14	16,770	4,355	2,573	1,293	385	25,376
15 - 19	8,240	2,747	1,916	1,184	300	14,387
20 - 24	2	6	4	2	1	15
25 - 29	0	1	0	0	0	1
30 or More	0	0	0	0	0	0
Total	114,578	17,783	9,422	4,915	1,702	148,400

* Boxed areas indicate eligibility for normal retirement.

TRS 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	319	188	59	13	2	581
5 - 9	617	498	150	42	14	1,321
10 - 14	878	653	225	50	11	1,817
15 - 19	2,087	783	402	118	20	3,410
20 - 24	4,336	1,811	769	283	45	7,244
25 - 29	1,418	3,219	1,164	368	81	6,250
30 or More	2	700	891	415	85	2,093
Total	9,657	7,852	3,660	1,289	258	22,716

TRS 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	12,652	804	257	66	17	13,796
5 - 9	10,626	1,142	380	122	23	12,293
10 - 14	5,228	813	385	115	19	6,560
15 - 19	3,017	580	304	130	29	4,060
20 - 24	0	0	0	0	0	0
25 - 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	31,523	3,339	1,326	433	88	36,709

* Boxed areas indicate eligibility for normal retirement.

LEOFF 1 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	2	0	1	0	0	3
5 - 9	6	0	0	0	0	6
10 - 14	6	4	1	0	0	11
15 - 19	143	16	0	0	0	159
20 - 24	960	270	28	1	0	1,259
25 - 29	258	593	129	13	0	993
30 or More	1	74	59	26	2	162
Total	1,376	957	218	40	2	2,593

LEOFF 2 Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	3,306	50	20	3	0	3,379
5 - 9	3,275	62	17	9	1	3,364
10 - 14	1,961	86	34	7	0	2,088
15 - 19	1,842	124	20	7	1	1,994
20 - 24	2	0	0	0	0	2
25 - 29	0	0	0	0	0	0
30 or More	0	0	0	0	0	0
Total	10,386	322	91	26	2	10,827

* Boxed areas indicate eligibility for normal retirement.

WSP Membership by Age and Years of Service 1996 Valuation Data

Years of Service	49 or Less	50-54	55-59	60-64	65 or Older	Total
0 - 4	94	0	0	0	0	94
5 - 9	294	2	0	0	0	296
10 - 14	174	1	0	0	0	175
15 - 19	110	3	1	0	0	114
20 - 24	97	16	0	0	0	113
25 - 29	50	48	6	0	0	104
30 or More	0	10	11	0	0	21
Total	819	80	18	0	0	917

* Boxed areas indicate eligibility for normal retirement.

Appendix B

Prior Retirement Incentives and Windows

1973 - Northern State Hospital:

In 1973, the Department of Social and Health Services determined Northern State Hospital was no longer needed as an institution for the mentally ill. As a consequence, the decision was made to permanently close the facility.

Chapter 43.130 RCW was enacted to address this situation and remains in effect today. Under these provisions, qualified personnel of an affected institution are given three options:

- ◆ Relocate to other state employment;
- ◆ Receive payment of termination pay; or
- ◆ If an affected employee has attained age 55 and completed at least 5 years of service, receive a retirement allowance without actuarial reduction. If, an affected employee is age 45 with at least 5 years of service, he or she could retire with an actuarially reduced benefit.

The allowance offered under this Chapter is limited. No allowance can be received in a year following a year in which the retiree earned more than \$6,000. The \$6,000 amount is annually adjusted by any COLA received by PERS retirees, beginning in 1973. (Factually, this is an impossible task, given the nature of COLAs provided from 1973 through the present.)

Community College/K-12 Retirement Incentive Programs:

In June of 1992, the JCPP learned of several retirement incentive programs in operation within the community college districts. A TRS 1 member who was eligible to retire within two years could sign an agreement to retire in two years and waive their rights of tenure at the end of that period. In consideration for this agreement, the member would receive summer session contracts for a class load 50 percent greater than the standard summer load with compensation 72 percent greater than standard compensation.

Certain school districts were also providing retirement incentives. In these instances, the teachers were being given additional teaching days if they agreed to retire within a certain period of time

In both cases, not only were the faculty member and teacher receiving increased compensation, they were also enhancing their average final compensation (AFC), which in turn increased their retirement benefit. DRS later issued a notice to community college and K-12 districts informing them this type of practice was not condoned and such incentives were not reportable as compensation.

Department of Transportation Retirement Incentive Program:

In 1995, the Department of Transportation was experiencing personnel and morale problems in one of its regional offices. Part of the problem was caused by the continued longevity of professional engineering employees. These individuals were not retiring as anticipated and the agency's promotional patterns were being stymied. In addition, budgetary cutbacks were expected.

DOT successfully proposed an incentive program to the Governor and the Legislature. The legislation allowed DOT to offer a \$500 cash bonus for each year of service to certain employees if they agreed to retire. The incentive program was initiated in 1996 for PERS 1 employees of DOT's Southwest Region who were already eligible to retire. Twenty-three employees were eligible for the bonus. Thirteen accepted it. The enabling legislation for this incentive expired in 1997.

1982 Early Retirement Window:

In 1982, the state was experiencing fiscal problems. With declining revenues, the Legislature faced the prospect of reductions in programs and FTEs. To minimize the impact of personnel reductions and realize short-term salary savings, an early retirement program was offered to PERS and TRS Plan 1 members.

In **Table #1**, the qualifications for normal retirement are compared with the qualifications for the early retirement window. (The term *normal retirement* means the receipt of the retirement allowance without reduction.)

TABLE #1
Eligibility for 1982 Early Retirement
PERS 1 and TRS 1

Normal Retirement	Early Retirement
Age 60 with 5 years of service	Age 55 with 5 years of service
Age 55 with 25 years of service	Age 50 with 20 years of service
30 years of service	25 years of service

Normal retirement qualifications were simply reduced by five years. **Table #2** provides some statistics for the 1982 program.

TABLE #2
1982 Early Retirement Statistics

	PERS 1	TRS 1
Number of Retirees	1,938	1,023
Average Age	56.2	53.8
Average Service	18.3	22.6
Years to Normal Retirement	2.3	2.2
Percent of Those Eligible to Utilize Early Retirement	22%	29%

There was an additional element connected with the 1982 early retirement program which may have effected participation rates. The Legislature had just adopted language which prospectively eliminated any cash-out of unused leave, for PERS 1 members. The elimination of this benefit would have prevented PERS 1 members from applying a portion of their cash-out to their average final compensation (AFC) and retirement benefit. The language to eliminate cash-outs was later declared unconstitutional. Nonetheless, a large number of members may have taken advantage of early retirement to ensure they would be able to use their cash-outs in calculating their AFC.

In terms of saving money, the 1982 early retirement program contained one flaw. It did not prohibit early retirees from contracting with their employers to do the same job they were doing prior to retirement. A significant number of retirees did just that and no cost savings were realized.

1992/1993 Early Retirement Window:

The early retirement programs for the years 1992 and 1993 (treated here as a single program), were enacted for two reasons. First, during this period, educational reform was an area of intense legislative deliberation. Some maintained that an early retirement program would provide longer service teachers with the opportunity to retire. By so doing, openings would then be available to younger teachers who might be more amenable to change. Second, it was possible RIFs might be used to trim the size of government. Together these possibilities supported providing an early retirement program.

The time periods for the 1992 and 1993 open windows are shown in **Table #3**.

TABLE #3
Operative Dates for Early Retirement

	Employed in an Eligible Position	Application Submitted By	Retire By
1992	April 2, 1992	June 15, 1992	August 31, 1992
1993	March 1, 1993	July 1, 1993	August 31, 1993

Eligibility for these programs was identical to the criteria applied in 1982. **Table #4** provides the number of early retirees in the 92/93 programs, as well as the utilization rate.

TABLE #4
Number of Early Retirees

	1992			1993		
	Eligible	Retired	Utilization Rate	Eligible	Retired	Utilization Rate
PERS 1	9,381	1,198	12.8%	9,145	867	9.5%
TRS 1	<u>6,611</u>	<u>826</u>	12.5%	<u>6,443</u>	<u>423</u>	6.6%
Total	15,992	2,024	12.7%	15,588	1,290	8.3%

Appendix C

Future Eligibility for Social Security Benefits

Age Eligible for Full Social Security Benefit

If Born In	Will Be Age 62 In	Age For Full Benefit
1937 or Earlier	1999 or Earlier	65 Years
1938	2000	65 Years 2 Months
1939	2001	65 Years 4 Months
1940	2002	65 Years 6 Months
1941	2003	65 Years 8 Months
1942	2004	65 Years 10 Months
1943-1954	2005-2016	66 Years
1955	2017	66 Years 2 Months
1956	2018	66 years 4 Months
1957	2019	66 years 6 months
1958	2020	66 years 8 Months
1959	2021	66 years 10 Months
1960 or Later	2022 or Later	67 Years

Appendix D

1997 Monthly Premium Rates for Non-Medicare Eligible Retirees

Provider	Retiree Only	Retiree & Spouse	Provider	Retiree Only	Retiree & Spouse
Comm Hlth Plan	\$156.43	\$308.57	PacificCare	\$155.24	\$306.19
Group Health	160.12	315.95	QualMed	166.05	327.81
HealthPlus	178.95	353.81	Regence	179.64	354.99
HMO WA	161.29	318.29	Selectcare	157.86	311.43
Kaiser Foundation	146.22	288.15	Skagit Co Medical	143.79	263.29
Kitsap Physcn Svcs	163.23	322.17	Uniform Medical	158.29	312.29
Medical Svcs Corp	158.20	312.11	Virginia Mason	143.29	262.29
NYLCare	146.66	289.03	Whatcom Med Bureau	143.79	283.29
Options Hlth Care	162.64	320.99			

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY: Office of the State Actuary	CODE: 035	DATE: 2/18/97	BILL NUMBER: HB 1967
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IMPACT ON: **Public Employees Retirement System Plan I (PERS I)
and Teachers Retirement System Plan I (TRS I)**

BACKGROUND:

Members of PERS I and TRS I are eligible to retire upon attaining:

- (1) 30 years of service;
- (2) age 55 and 25 years of service; or
- (3) age 60 and 5 years of service.

SUMMARY:

Members will be eligible to retire if they attain:

- (1) 25 years of service;
- (2) age 50 and 20 years of service; or
- (3) age 55 and 5 years of service.

PERS I members must be employed as of March 1, 1997, submit an application for retirement by January 1, 1998, and retire as of June 30, 1998.

TRS I members must be employed as of March 1, 1997, submit an application for retirement by July 1, 1997, and retire as of August 31, 1997.

Also, there are limitations on the member returning to work for the employer under a personal services contract.

Finally, employees of school districts may receive additional benefits from attendance incentive programs or accrued leave for sick/injury leave. These payments would not be made from the pension trust funds are not included in the cost estimates that follow.

Number Eligible	PERS I	TRS I
If 100% Utilization Rate	12,100	8,500
Expected Utilization Rate	14%	13%
Expected Number	1,700	1,100

		<u>PERS I</u>	<u>TRS I</u>	<u>TOTAL</u>
Increase in Contribution Rates				
Employer/State		.04%	.07%	
Costs (in millions)				
1997-1999	State:			
	General Fund	\$ 1.2	\$ 2.5	\$ 3.7
	Non-General Fund	2.0	0	2.0
	Total	3.2	2.5	5.8
	Local Government	1.6	.8	2.4
1999-2001	State:			
	General Fund	\$ 1.5	\$ 3.6	\$ 5.0
	Non-General Fund	2.5	0	2.5
	Total	4.0	3.6	7.6
	Local Government	2.0	1.1	3.1
1997-2003	State:			
	General Fund	\$ 4.5	\$10.7	\$15.2
	Non-General Fund	7.6	0.0	7.6
	Total	12.1	10.7	22.8
	Local Government	6.0	3.4	9.4
1997-2022	State:			
	General Fund	\$ 36	\$ 84	\$ 120
	Non-General Fund	62	0	62
	Total	99	84	182
	Local Government	49	27	76
Increase in Unfunded Accrued Liability		\$ 84	\$ 71	\$ 155

Gerald B. Allard, State Actuary

HOUSE BILL 1967

State of Washington

55th Legislature

1997 Regular Session

By Representatives Wolfe, Scott, Mason, Gombosky, Gardner, Hatfield, Dickerson, Keiser and D. Sommers

Read first time 02/17/97. Referred to Committee on Appropriations.

1 AN ACT Relating to early retirement benefits; reenacting and
2 amending RCW 28A.400.212; creating new sections; providing expiration
3 dates; and declaring an emergency.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** (1) Subject to subsection (2) of this
6 section, in addition to members eligible to retire under RCW 41.40.180,
7 any member of the public employees' retirement system plan I who meets
8 the following criteria may retire after providing written notification
9 to the member's employer and submitting the required application to
10 the director on a form provided by the department:

11 (a) The member is employed by an employer in an eligible position
12 on March 1, 1997; and

13 (b) The member has: (i) Attained the age of fifty-five years and
14 completed five service credit years of service; (ii) completed twenty-
15 five service credit years of service; or (iii) attained the age of
16 fifty years and completed twenty service credit years of service.

17 (2) A member who wishes to apply for retirement under subsection
18 (1) of this section must submit the required notification and

1 application form no later than January 1, 1998, setting forth that the
2 member shall be retired no later than June 30, 1998.

3 NEW SECTION. **Sec. 2.** Section 1 of this act is added to chapter
4 41.40 RCW, but because of its temporary nature, shall not be codified.

5 NEW SECTION. **Sec. 3.** (1) Subject to subsection (2) of this
6 section, in addition to members eligible to retire under RCW 41.32.480,
7 any member of the teachers' retirement system plan I who meets the
8 following criteria may retire after providing written notification to
9 the member's employer and submitting the required application to the
10 director on a form provided by the department:

11 (a) The member is employed by an employer on March 1, 1997, and is
12 not a substitute teacher; and

13 (b) The member has: (i) Attained the age of fifty-five years and
14 completed five service credit years of service; (ii) completed twenty-
15 five service credit years of service; or (iii) attained the age of
16 fifty years and completed twenty service credit years of service.

17 (2) A member who wishes to apply for retirement under subsection
18 (1) of this section must submit the required notification and
19 application form no later than July 1, 1997, setting forth that the
20 member shall be retired no later than August 31, 1997.

21 NEW SECTION. **Sec. 4.** Section 3 of this act is added to chapter
22 41.32 RCW, but because of its temporary nature, shall not be codified.

23 NEW SECTION. **Sec. 5.** In order to ensure that the state derives
24 the expected benefits from the early retirement provisions of this act,
25 no state agency may engage through personal service contracts persons
26 who retire from service under the provisions of this act. Exceptions
27 to this section may be granted by written approval from the director of
28 the office of financial management if the director finds that the
29 proposed contract is necessary to protect the public safety, protect
30 against the loss of federal certification or loss of critical federal
31 funds, or carry out functions so essential to the agency that even
32 temporary suspension or delay of services would have a significant
33 negative impact on the public. At the end of each three-month period
34 in which exceptions are approved, the director shall forward a copy of
35 any approvals, together with justification for the exceptions, to the

1 fiscal committees of the legislature. Each forwarded approval shall
2 include the name of the proposed contractor, the agency and division or
3 department requesting the contract, duration and cost of the proposed
4 contract, and specific functions and duties to be carried out under the
5 contract. This section shall expire June 30, 1999.

6 NEW SECTION. **Sec. 6.** Section 5 of this act is added to chapter
7 39.29 RCW, but because of its temporary nature, shall not be codified.

8 NEW SECTION. **Sec. 7.** In order to ensure that the state derives
9 the expected benefits from the early retirement provisions of this act,
10 no board of directors of a school district or educational service
11 district may engage through personal service contracts persons who
12 retire from service under the provisions of this act. Exceptions to
13 this section may be granted by written approval from the superintendent
14 of public instruction if the superintendent finds that the proposed
15 contract is necessary to protect student safety, protect against the
16 loss of school district certification or loss of federal funds, or
17 carry out functions so essential to the district that even temporary
18 suspension or delay of services would have a significant negative
19 impact on students. At the end of each three-month period in which
20 exceptions are approved, the superintendent shall forward a copy of any
21 approvals, together with justification for the exceptions, to the
22 office of financial management and the fiscal committees of the
23 legislature. Each forwarded approval shall include the name of the
24 proposed contractor, the district requesting the contract, duration and
25 cost of the proposed contract, and specific functions and duties to be
26 carried out under the contract. This section shall expire August 31,
27 1998.

28 NEW SECTION. **Sec. 8.** Section 7 of this act is added to chapter
29 28A.400 RCW, but because of its temporary nature, shall not be
30 codified.

31 NEW SECTION. **Sec. 9.** In order to ensure that the state derives
32 the expected benefits from the early retirement provisions of chapter
33 . . . , Laws of 1997 (this act), no state agency may hire persons who
34 retire from service under the provisions of chapter . . . , Laws of 1997
35 (this act), as temporary or project employees, as defined by the

1 Washington personnel resources board for employees covered under
2 chapter 41.06 RCW, and by the employer for persons who are employed by
3 institutions of higher education or community or technical colleges.
4 Exceptions to this section may be granted by written approval from the
5 director of the office of financial management if the director finds
6 that the temporary or project employment of a retiree is necessary to
7 protect the public safety, protect against the loss of federal
8 certification or loss of critical federal funds, or carry out functions
9 so essential to the agency that even temporary suspension or delay of
10 services would have a significant negative impact on the public. At
11 the end of each three-month period in which exceptions are approved,
12 the director shall forward a copy of any approvals, together with
13 justification for the exceptions, to the fiscal committees of the
14 legislature. Each forwarded approval shall include the name of the
15 temporary or project employee, the agency and division or department
16 requesting the employment, duration and cost of the proposed
17 employment, and specific functions and duties to be carried out during
18 the employment. This section shall expire June 30, 1999.

19 NEW SECTION. **Sec. 10.** Section 9 of this act is added to chapter
20 43.01 RCW, but because of its temporary nature, shall not be codified.

21 **Sec. 11.** RCW 28A.400.212 and 1993 c 519 s 14 and 1993 c 86 s 8 are
22 each reenacted and amended to read as follows:

23 An employee of a school district that has established an attendance
24 incentive program under RCW 28A.400.210 who retires under section 1 or
25 3, chapter 234, Laws of 1992, section 1 or 3, chapter 86, Laws of 1993,
26 (~~or~~) section 4 or 6, chapter 519, Laws of 1993, or section 1 or 3,
27 chapter . . . , Laws of 1997 (section 1 or 3 of this act), shall
28 receive, at the time of his or her separation from school district
29 employment, not less than one-half of the remuneration for accrued
30 leave for illness or injury payable to him or her under the district's
31 incentive program. The school district board of directors may, at its
32 discretion, pay the remainder of such an employee's remuneration for
33 accrued leave for illness or injury after the time of the employee's
34 separation from school district employment, but the employee or the
35 employee's estate is entitled to receive the remainder of the
36 remuneration no later than the date the employee would have been
37 eligible to retire under the provisions of RCW 41.40.180 or 41.32.480

1 had the employee continued to work for the district until eligible to
2 retire, or three years following the date of the employee's separation
3 from school district employment, whichever occurs first. A district
4 exercising its discretion under this section to pay the remainder of
5 the remuneration after the time of the employee's separation from
6 school district employment shall establish a policy and procedure for
7 paying the remaining remuneration that applies to all affected
8 employees equally and without discrimination. Any remuneration paid
9 shall be based on the number of days of leave the employee had accrued
10 and the compensation the employee received at the time he or she
11 retired under section 1 or 3, chapter 234, Laws of 1992, section 1 or
12 3, chapter 86, Laws of 1993, ((or)) section 4 or 6, chapter 519, Laws
13 of 1993, or section 1 or 3, chapter . . . , Laws of 1997 (section 1 or
14 3 of this act).

15 NEW SECTION. **Sec. 12.** This act is necessary for the immediate
16 preservation of the public peace, health, or safety, or support of the
17 state government and its existing public institutions, and takes effect
18 immediately.

--- END ---

Definition of “Veteran” Study

Legislative Mandate

The higher education coordinating board and the joint committee on pension policy shall each conduct a study as to the eligibility of veterans for benefits provided, respectively, by higher education and the state retirement system if the definition of veteran is modified in the manner provided in section 2 of the act and report their findings to the legislature by December 1, 2002. C 292 L 02 sec. 11.

Issue

A new definition of veteran was adopted by the 2002 legislature for certain purposes such as civil service exam scoring, license plates, county indigent aid, alms houses, and county burials. Unlike the definitions of veteran used in Public Employees Retirement System plan 1 (PERS 1) and the Washington State Patrol Retirement System (WSPRS), the 2002 definition includes peacetime veterans, certain members of the national guard and reserves, and those who served in the Philippine Armed Forces or Scouts during World War II. The legislation included the study language above requiring the Joint Committee on Pension Policy to study the effect of using the new definition in the state retirement systems.

Background

There are two distinct types of military service credit in the Washington State Retirement Systems, and are normally referred to as "interruptive" and "prior" military service credit.

Interruptive service credit is available in most of the plans of the Washington State Retirement Systems, but only for periods of military service that interrupt a member's career in public service. To be considered interruptive service, a member must apply for re-employment with their previous public employer within 90 days of their honorable discharge.

A member claiming interruptive service credit in PERS plan 2, for example, must pay employee contributions for the period of interruptive military service within five years of resumption of public employment, but a member of PERS 1 may claim military service credit if eligible without making employee contributions for those periods.

Prior military service credit is available to qualified members of the Public Employees Retirement System, plan 1 (PERS 1). For PERS 1 members with 25 years of service credit, up to five years of military service performed prior to their Washington State Retirement Systems-covered career may be claimed for service credit. Under somewhat different terms prior military service is also available under the benefits available to members who enter the Washington State Patrol Retirement System (WSPRS) prior to January 1, 2003 and earn 25 years of service credit.

Only some types of military service qualify for prior military service credit. In RCW 41.04.005, applicable to PERS 1 and the pre-LEOFF police and fire pension acts, the definition does not include many peacetime veterans, or those that served in the reserves or National Guard. In RCW 41.06.150(20), applicable to WSPRS, qualified veterans include some with service in the National Guard and those with both peacetime and reserve service in the Armed Forces of the United States.

Interruptive military service credit is available to members of the pre-LEOFF Fireman's Relief and Pension 1947 Act plan (RCW 41.16.220) and the pre-LEOFF Police Relief and Pensions in First Class Cities plan (RCW 41.20.030). Service meeting the RCW 41.04.005 definition (included in Appendix A) is eligible for this interruptive military service. Only members that were not employed after the start of LEOFF 1 in March 1, 1970 remained in the pre-LEOFF police and fire plans.

ESB 5626 introduced a broader definition of veteran for purposes such as civil service exam preferences, free license plates, and other county services. Veterans added by the ESB 5626 section 2 to the PERS 1 veteran definition include members of the regular branches that did not serve during a time of war, that served in the reserves, national guards, or coast guard and who either fulfilled their initial military service obligation or served for 180 days under "presidential select reserve call."

Analysis

According to the Department of Veteran's Affairs there are approximately 670,000 veterans of the branches of the armed forces of the United States in Washington State. Of this total population 179,000, or 27%, are peacetime veterans. In addition to those in the federal branches, there are about 8,000 active and 2,500 retired members of the Washington Army and Air National Guard.

Estimated population of veterans in Washington State	
<i>Source: Washington State Department of Veteran's Affairs, 2002</i>	
Armed Forces of the United States, with wartime service:	491,000
Armed Forces of the United States, without wartime service:	179,000
Washington National Guard (army and air)	10,500
Total:	680,500

The Office of Financial Management population projection for Washington as of April 1, 2002 is 6,041,700, suggesting that under a broad definition that includes all those veterans recognized by the Department of Veteran's Affairs, approximately 11% of Washington residents are veterans.

Estimating the number of additional veterans that might be eligible for PERS 1 prior military service credit is hindered by limited information. The number of members of PERS 1 with particular types of military service is unknown. Any effect on other systems such as WSPRS or the pre-LEOFF police and fire plans is likely to be very small in comparison to PERS 1.

One method that can be used is to compare the total veterans in the state to the number of peacetime veterans plus National Guard members, and then apply the difference to estimate the number of additional veterans that might be eligible for prior military service credit.

The 1996 to 2001 Experience Study conducted by the Office of the State Actuary found that forty-eight percent of males and one percent of females retiring with 25 or more years of service were eligible for military service credit. Males had an average of 37 months, and females an average of 35 months of military service.

Estimated Costs

As the number of members of the state retirement systems with certain types of military service can only be estimated and the study is of a hypothetical change of the veteran definitions, only an estimated cost can be provided.

Currently, there are approximately 24,000 active and 54,000 retired members in PERS 1. If the more inclusive definition of veteran from section 2 of ESB 5626 was used for determining eligibility for the remaining active members of PERS 1, 19 percent more male PERS 1 members would receive 37 months of military service credit. There would be a less than 1 percent change in the number of qualifying veterans amongst female PERS 1 members. This change would increase the employer contribution rate for PERS and SERS by 0.01 percent, generating an estimated cost of \$437,000 to the general fund and \$817,000 for local government for the 2003-2005 biennium.

If the more inclusive definition was also applied for future benefit payments to the retired population of PERS 1, the employer contribution rate for PERS and SERS would increase by 0.07 percent, generating an estimated cost of \$3.1 million to the general fund and \$5.7 million for local governments for the 2003-2005 biennium.

Appendix A

Definition of veteran for the Public Employees' Retirement System, Plan 1:

RCW 41.04.005 "Veteran" defined for certain purposes. (1) As used in RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, and 28B.15.380 "veteran" includes every person, who at the time he or she seeks the benefits of RCW 41.04.005, 41.16.220, 41.20.050, 41.40.170, or 28B.15.380 has received an honorable discharge or received a discharge for physical reasons with an honorable record and who meets at least one of the following criteria:

(a) The person has served between World War I and World War II or during any period of war, as defined in subsection (2) of this section, as either:

(i) A member in any branch of the armed forces of the United States;

(ii) A member of the women's air forces service pilots;

(iii) A U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the war shipping administration, the office of defense transportation, or their agents, from December 7, 1941, through December 31, 1946; or

(iv) A civil service crewmember with service aboard a U.S. army transport service or U.S. naval transportation service vessel in oceangoing service from December 7, 1941, through December 31, 1946; or

(b) The person has received the armed forces expeditionary medal, or marine corps and navy expeditionary medal, for opposed action on foreign soil, for service:

(i) In any branch of the armed forces of the United States; or

(ii) As a member of the women's air forces service pilots.

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era[, which] means:

(i) The period beginning on February 28, 1961, and ending on May 7, 1975, in the case of a veteran who served in the Republic of Vietnam during that period;

(ii) The period beginning August 5, 1964, and ending on May 7, 1975;

(e) The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law;

(f) The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

(g) The following armed conflicts, if the participant was awarded the respective campaign badge or medal: The crisis in Lebanon; the invasion of Grenada; Panama, Operation Just Cause; Somalia, Operation Restore Hope; Haiti, Operation Uphold Democracy; and Bosnia, Operation Joint Endeavor. [2002 c 292 § 1; 2002 c 27 § 1; 1999 c 65 § 1; 1996 c 300 § 1; 1991 c 240 § 1; 1984 c 36 § 1; 1983 c 230 § 1; 1982 1st ex.s. c 37 § 20; 1969 ex.s. c 269 § 1.]

NOTES:

Reviser's note: This section was amended by 2002 c 27 § 1 and by 2002 c 292 § 1, each without reference to the other. Both amendments are incorporated in the publication of this section under RCW 1.12.025(2). For rule of construction, see RCW 1.12.025(1).

Effective date--1983 c 230: "This act is necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect July 1, 1983." [1983 c 230 § 3.]

Effective date--Severability--1982 1st ex.s. c 37: See notes following RCW 28B.15.012.

ENGROSSED SENATE BILL 5626

State of Washington

57th Legislature

2001 Regular Session

By Senators Rasmussen, Oke, Swecker, Winsley, Snyder, Shin, Roach, Patterson, McAuliffe and Benton; by request of Joint Select Committee on Veterans' and Military Affairs

Read first time 01/29/2001. Referred to Committee on State & Local Government.

1 AN ACT Relating to the definition of veteran; amending RCW
2 41.04.005, 46.20.027, 41.04.010, 72.36.035, 73.04.090, 73.08.010,
3 73.08.060, 73.08.070, and 73.24.030; adding a new section to chapter
4 41.04 RCW; and creating a new section.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.04.005 and 1999 c 65 s 1 are each amended to read
7 as follows:

8 (1) As used in RCW 41.04.005, 41.16.220, ~~((and))~~ 41.20.050,
9 41.40.170, and 28B.15.380 "veteran" includes every person, who at the
10 time he or she seeks the benefits of RCW 41.04.005, ~~((41.04.010,))~~
11 41.16.220, 41.20.050, 41.40.170, ~~((73.04.110, or 73.08.080))~~ or
12 28B.15.380 has received an honorable discharge or received a discharge
13 for physical reasons with an honorable record and who meets at least
14 one of the following criteria:

15 (a) The person has served between World War I and World War II or
16 during any period of war, as defined in subsection (2) of this section,
17 as either:

18 (i) A member in any branch of the armed forces of the United
19 States;

(ii) A member of the women's air forces service pilots;
(iii) A U.S. documented merchant mariner with service aboard an oceangoing vessel operated by the war shipping administration, the office of defense transportation, or their agents, from December 7, 1941, ~~((to))~~ through December 31, 1946; or

(iv) A civil service crewmember with service aboard a U.S. army transport service or U.S. naval transportation service vessel in oceangoing service from December 7, 1941, ~~((to))~~ through December 31, 1946; or

(b) The person has received the armed forces expeditionary medal, or marine corps and navy expeditionary medal, for opposed action on foreign soil, for service:

(i) In any branch of the armed forces of the United States; or

(ii) As a member of the women's air forces service pilots.

(2) A "period of war" includes:

(a) World War I;

(b) World War II;

(c) The Korean conflict;

(d) The Vietnam era, which was the period beginning August 5, 1964, and ending on May 7, 1975;

(e) The Persian Gulf War, which was the period beginning August 2, 1990, and ending on the date prescribed by presidential proclamation or law;

(f) The period beginning on the date of any future declaration of war by the congress and ending on the date prescribed by presidential proclamation or concurrent resolution of the congress; and

(g) The following armed conflicts, if the participant was awarded the respective campaign badge or medal: The crisis in Lebanon; the invasion of Grenada; Panama, Operation Just Cause; Somalia, Operation Restore Hope; Haiti, Operation Uphold Democracy; and Bosnia, Operation Joint Endeavor.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.04 RCW to read as follows:

"Veteran" includes every person, who at the time he or she seeks the benefits of RCW 72.36.030, 41.04.010, 73.04.090, 73.04.110, 73.08.010, 73.08.060, 73.08.070, or 73.08.080 has received an honorable discharge or received a discharge for medical reasons with an honorable

1 record, where applicable, and who has served in at least one of the
2 following capacities:

3 (1) As a member in any branch of the armed forces of the United
4 States, including the national guard and armed forces reserves, and has
5 fulfilled his or her initial military service obligation;

6 (2) As a member of the women's air forces service pilots;

7 (3) As a member of the armed forces reserves, national guard, or
8 coast guard, and has been called into federal service by a presidential
9 select reserve call up for at least one hundred eighty cumulative days;

10 (4) As a civil service crewmember with service aboard a U.S. army
11 transport service or U.S. naval transportation service vessel in
12 oceangoing service from December 7, 1941, through December 31, 1946; or

13 (5) As a member of the Philippine armed forces/scouts during the
14 period of armed conflict from December 7, 1941, through August 15,
15 1945.

16 **Sec. 3.** RCW 46.20.027 and 1999 c 199 s 1 are each amended to read
17 as follows:

18 A Washington state motor vehicle driver's license issued to any
19 (~~((person serving in the armed forces of the United States,))~~) service
20 member if valid and in force and effect while such person is serving in
21 the armed forces, shall remain in full force and effect so long as such
22 service continues unless the same is sooner suspended, canceled, or
23 revoked for cause as provided by law and for not to exceed ninety days
24 following the date on which the holder of such driver's license is
25 honorably separated from service in the armed forces of the United
26 States. A Washington state driver's license issued to the spouse or
27 dependent child of such service member likewise remains in full force
28 and effect if the person is residing with the service member.

29 For purposes of this section, "service member" means every person
30 serving in the armed forces whose service as of the date of application
31 for the driver's license meets the definition of veteran pursuant to
32 section 2 of this act or the person will meet the definition of veteran
33 at the time of discharge.

34 **Sec. 4.** RCW 41.04.010 and 2000 c 140 s 1 are each amended to read
35 as follows:

36 In all competitive examinations, unless otherwise provided in this
37 section, to determine the qualifications of applicants for public

1 offices, positions or employment, the state, and all of its political
2 subdivisions and all municipal corporations, shall give a scoring
3 criteria status to all veterans as defined in ((RCW 41.04.005)) section
4 2 of this act, by adding to the passing mark, grade or rating only,
5 based upon a possible rating of one hundred points as perfect a
6 percentage in accordance with the following:

7 (1) Ten percent to a veteran who served during a period of war or
8 in an armed conflict as defined in RCW 41.04.005 and does not receive
9 military retirement. The percentage shall be added to the passing
10 mark, grade, or rating of competitive examinations until the veteran's
11 first appointment. The percentage shall not be utilized in promotional
12 examinations;

13 (2) Five percent to a veteran who did not serve during a period of
14 war or in an armed conflict as defined in ((RCW 41.04.005)) section 2
15 of this act or is receiving military retirement. The percentage shall
16 be added to the passing mark, grade, or rating of competitive
17 examinations until the veteran's first appointment. The percentage
18 shall not be utilized in promotional examinations;

19 (3) Five percent to a veteran who was called to active military
20 service for one or more years from employment with the state or any of
21 its political subdivisions or municipal corporations. The percentage
22 shall be added to the first promotional examination only;

23 (4) All veterans' scoring criteria specified in subsections (1),
24 (2), and (3) of this section must be claimed within fifteen years of
25 the date of release from active military service. This period may be
26 extended for valid and extenuating reasons to include but not be
27 limited to:

28 (a) Documented medical reasons beyond control of the veteran;

29 (b) United States department of veterans' affairs documented
30 disabled veteran; or

31 (c) Any veteran who has his or her employment terminated through no
32 fault or action of his or her own and whose livelihood is adversely
33 affected may seek scoring criteria employment consideration under this
34 section.

35 **Sec. 5.** RCW 72.36.035 and 1993 sp.s. c 3 s 6 are each amended to
36 read as follows:

37 For purposes of this chapter, unless the context clearly indicates
38 otherwise:

1 (1) "Actual bona fide residents of this state" means persons who
2 have a domicile in the state of Washington immediately prior to
3 application for admission to a state veterans' home.

4 (2) "Department" means the Washington state department of veterans
5 affairs.

6 (3) "Domicile" means a person's true, fixed, and permanent home and
7 place of habitation, and shall be the place where the person intends to
8 remain, and to which the person expects to return when the person
9 leaves without intending to establish a new domicile elsewhere.

10 (4) "State veterans' home" means either the Washington soldiers'
11 home and colony in Orting, or the Washington veterans' home in Retsil,
12 or both.

13 (5) "Veteran" has the same meaning established in ((RCW 41.04.005))
14 section 2 of this act.

15 **Sec. 6.** RCW 73.04.090 and 1991 c 240 s 3 are each amended to read
16 as follows:

17 All benefits, advantages or emoluments, not available upon equal
18 terms to all citizens, including but not being limited to preferred
19 rights to public employment, civil service preference, exemption from
20 license fees or other impositions, preference in purchasing state
21 property ((and special pension or retirement rights)), which by any law
22 of this state have been made specially available to war veterans or to
23 persons who have served in the armed forces or defense forces of the
24 United States, shall be available only to persons who have been subject
25 to full and continuous military control and discipline as actual
26 members of the federal armed forces or to persons defined as "veterans"
27 in ((RCW 41.04.005)) section 2 of this act. Service with such forces
28 in a civilian capacity, or in any capacity wherein a person retained
29 the right to terminate his or her service or to refuse full obedience
30 to military superiors, shall not be the basis for eligibility for such
31 benefits. Service in any of the following shall not for purposes of
32 this section be considered as military service: The office of
33 emergency services or any component thereof; the American Red Cross;
34 the United States Coast Guard Auxiliary; United States Coast Guard
35 Reserve Temporary; United States Coast and Geodetic Survey; American
36 Field Service; Civil Air Patrol; Cadet Nurse Corps, and any other
37 similar organization.

1 **Sec. 7.** RCW 73.08.010 and 1983 c 295 s 1 are each amended to read
2 as follows:

3 For the relief of indigent and suffering veterans as defined in
4 ((RCW 41.04.005)) section 2 of this act and their families or the
5 families of those deceased, who need assistance in any city, town or
6 precinct in this state, the legislative authority of the county in
7 which the city, town or precinct is situated shall provide such sum or
8 sums of money as may be necessary, to be drawn upon by the commander
9 and quartermaster, or commander and adjutant or commander and service
10 officer of any post, camp or chapter of any national organization of
11 veterans now, or which may hereafter be, chartered by an act of
12 congress in the city or town upon recommendation of the relief
13 committee of said post, camp or chapter: PROVIDED, Said veteran or the
14 families of those deceased are and have been residents of the state for
15 at least twelve months, and the orders of said commander and
16 quartermaster, or commander and adjutant or commander and service
17 officer shall be the proper voucher for the expenditure of said sum or
18 sums of money.

19 **Sec. 8.** RCW 73.08.060 and 1983 c 295 s 4 are each amended to read
20 as follows:

21 County legislative authorities are hereby prohibited from sending
22 indigent or disabled veterans as defined in ((RCW 41.04.005)) section
23 2 of this act or their families or the families of the deceased to any
24 almshouse (or orphan asylum) without the concurrence and consent of the
25 commander and relief committee of the post, camp or chapter of any
26 national organization of veterans now, or which may hereafter be,
27 chartered by an act of congress as provided in RCW 73.08.010 and
28 73.08.030. Indigent veterans shall, whenever practicable, be provided
29 for and relieved at their homes in such city, town or precinct in which
30 they shall have a residence, in the manner provided in RCW 73.08.010
31 and 73.08.030. Indigent or disabled veterans as defined in ((RCW
32 41.04.005)) section 2 of this act, who are not insane and have no
33 families or friends with whom they may be domiciled, may be sent to any
34 soldiers' home.

35 **Sec. 9.** RCW 73.08.070 and 1997 c 286 s 1 are each amended to read
36 as follows:

1 It shall be the duty of the legislative authority in each of the
2 counties in this state to designate some proper authority other than
3 the one designated by law for the care of paupers and the custody of
4 criminals who shall cause to be interred at the expense of the county
5 the body of any honorably discharged veterans as defined in ((RCW
6 41.04.005)) section 2 of this act and the wives, husbands, minor
7 children, widows or widowers of such veterans, who shall hereafter die
8 without leaving means sufficient to defray funeral expenses; and when
9 requested so to do by the commanding officer of any post, camp or
10 chapter of any national organization of veterans now, or which may
11 hereafter be, chartered by an act of congress or the relief committee
12 of any such posts, camps or chapters: PROVIDED, HOWEVER, That such
13 interment shall not cost more than the limit established by the county
14 legislative authority nor less than three hundred dollars. If the
15 deceased has relatives or friends who desire to conduct the burial of
16 such deceased person, then upon request of said commander or relief
17 committee a sum not to exceed the limit established by the county
18 legislative authority nor less than three hundred dollars shall be paid
19 to said relatives or friends by the county treasurer, upon due proof of
20 the death and burial of any person provided for by this section and
21 proof of expenses incurred.

22 **Sec. 10.** RCW 73.24.030 and 1977 c 31 s 4 are each amended to read
23 as follows:

24 The said plot shall be available, to the extent such space is
25 available, without charge or cost for the burial of persons who have
26 served in the army, navy, or marine corps in the United States, in the
27 Spanish-American war, Philippine insurrection, or the Chinese Relief
28 Expedition, or who served in any said branches of said service at any
29 time between April 21, 1898 and July 4, 1902 and any veteran as defined
30 in ((RCW 41.04.005)) section 2 of this act.

31 NEW SECTION. **Sec. 11.** The higher education coordinating board and
32 the joint committee on pension policy shall each conduct a study as to
33 the eligibility of veterans for benefits provided, respectively, by
34 higher education and the state retirement system if the definition of

1 veteran is modified in the manner provided in section 2 of this act and
2 report their findings to the legislature by December 1, 2002.

--- END ---